FINANCIAL TIMES

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FRIDAY JULY 17 1998

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Manage uncertainty or it will bite you
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Separate section

Swiss banks nearer deal with Jewish groups over Nazi gold

By John Authers in New York and William Hall in Zurich

Jewish community groups seeking restitution from Switzerland for its behaviour towards victims of the Holocaust appear again to be moving towards a settlement with the Swiss commercial banks, sources close to the negotiations said yesterday.

After months of acrimonious negotiations and threats by several US states to impose sanctions on the banks, the World Jewish Congress and some lawyers for Holocaust victims now seem prepared to reach a deal solely with the commercial banks.

They would then negotiate separately with the Swiss National Bank and the Swiss government, rather than trying to include all of them in a "global settlement".

The commercial banks, led by UBS and Credit Suisse, would be able to settle the issue by paying a figure believed to be $1.2bn and avoid damaging litigation and sanctions in the US.

The Swiss National Bank and the Swiss government have refused to become involved in the negotiations in spite of proposals in Congress that the 1946 Washington accord – which waived all future claims against Switzerland in return for SFr250m in gold – should be reopened.

Last month the Swiss banks made what they described as a final offer of $600m.

This would be on top of whatever figure was revealed to have been left in the dormant accounts of holocaust victims by the independent forensic audit being conducted by a commission headed by Paul Volcker, the former chairman of the US Federal Reserve.

This offer was rejected and lawyers for holocaust victims made a counter-offer of $1.5bn. This would have included the money revealed by the Volcker process, and would also have included a payment by the Swiss National Bank, which has acknowledged receiving stolen gold during the war.

The latest proposal is understood to be that the banks should guarantee that the Volcker process would yield at least $600m, thus paying a total of $1.2bn.

It is still unclear how much money will be revealed by the Volcker process, but informal estimates have varied widely.

Swiss bankers said yesterday that the $600m offer remained on the table but stressed that it was still their final offer. They repeated that they would honour any financial commitments found by the Volcker committee, but some remained sceptical that this would be sufficient to bridge the gap between the two sides.

The developments came amid signs that the Swiss government's refusal to be involved in any form of "global settlement" was hardening.

The Swiss government announced yesterday that it would boycott next week's hearings of Senator Alfonse D'Amato's Senate Banking Committee into "the Swiss banks, the 1946 Washington agreement, and current developments in holocaust assets restitution".

It has repeatedly stated that renegotiation of the 1946 agreement is "out of the question".

War crimes court, Page 18

WORLD NEWS

Kajiyama enters race to become Japanese premier

Seiroku Kajiyama, who backed strong fiscal measures to boost the Japanese economy, has entered the race to become the country's next prime minister. His declaration boosted Tokyo share prices while the yen strengthened against the US dollar. Page 16; Time to print money, Page 14; World stocks, Page 38; Currencies, Page 27

Coal dispute splits Germans
Divisions opened between the German state of North Rhine Westphalia and the federal government over how best to handle a dispute with the European Commission over the alleged misuse of state aids to two German anthracite producers. Page 3

Duma rejects tax proposals
Russia's parliament voted down several proposed tax-raising measures, casting doubts over the viability of the IMF's $11.2bn rescue package and knocking share prices down by 5 per cent. Page 2; World stocks, Page 38

Pact would cost EU $15bn
The EU would have to pay up to Ecu14.3bn ($15.6bn) a year to compensate farmers for the effects of a free trade deal with Mercosur, the Latin American trading group, according to a report ordered by the European Commission. Page 8

Brussels clash over Italian airport
The Italian government and the European Commission are locked in a dispute over plans to open the new Malpensa airport outside Milan amid claims it would give an unfair advantage to Alitalia over other European carriers. Page 2

Belgrade debt programme outline
Yugoslavia agreed the outlines of a $1.7bn debt restructuring programme with its commercial bank creditors, after two years in which the two sides appeared irreconcilable. Page 3

Poison gas sale Israeli jailed
Israeli businessman Nahum Manbar was jailed for 16 years for selling poison gas to Iran amid allegations that Benjamin Netanyahu, the prime minister, meddled in the trial. Page 6

Shipowner held over shooting
A member of a Greek shipping family was remanded in custody pending trial for attempted murder. Vangelis Ventouris, 39, has been accused of shooting rival shipowner Constantinos Agapitos, 40.

IT trade deal nearer
World Trade Organisation negotiators were optimistic over the chances of reaching agreement to eliminate tariffs on a list of information technology products worth up to $50bn in trade annually. Page 6

China flood toll 760
Floods across vast swathes of China have killed 760 people, said the country's Xinhua news agency, giving an official nationwide death toll for the first time.

Bugs bugged
Tiny transmitters have been attached to beetles to monitor their movements in a disused field in Kerava, a town near the Finnish capital of Helsinki.

World Bank claims probed
The World Bank has appointed a team of outside auditors to help it investigate allegations of corruption within its own ranks. Page 6

Beijing to extend health insurance
China plans to extend an experimental medical insurance scheme to its entire rural population of 900m people. Page 4

BUSINESS NEWS

Siemens lifts shares with wide-ranging restructuring plans

Siemens, the German industrial group, saw its shares jump 17 per cent after announcing restructuring plans to include the sale or separate listing of low-performing units. It also said it planned a New York Stock Exchange listing. Page 17; Lex, Page 16

Entergy of the US and Enel, the Italian state electricity group, have abandoned plans for a $3bn joint venture in the European electricity markets, after Entergy decided to retain full ownership of its two UK power stations. Page 18

Coca-Cola's net profits tumbled 9 per cent to $1.2bn in the second quarter as earnings continued to take a pummelling from the strong dollar. But the decline was smaller than expected and stood in contrast to underlying growth as the volume of drinks sold soared by 10 per cent worldwide. Page 17

Enron, the US energy group, has offered R$1.48bn (US$1.27bn) for Elektro, an electricity distribution company in Brazil's state of São Paulo, boosting the country's privatisation programme. Page 16

Derivatives exchanges Deutsche Terminbörse and Matif of France have seen talks toward setting up a "euro-alliance" almost grind to a halt since last week's tie-up between the German equity market and the London Stock Exchange. Page 17

General Motors' strikes produced the sharpest monthly fall in US industrial production for five years as output for June fell by a seasonally adjusted 0.6 per cent. Excluding vehicles and parts, production expanded. Page 10

China's textile industry is to lay off about 600,000 workers this year as Asian competitors undercut Chinese companies in both domestic and overseas markets, said the China National Textile Council. Page 4

Mobil and Royal Dutch/Shell said they would not proceed with their projected $2.5bn development of the Camisea hydrocarbons deposit in the jungles of Peru, after failing to agree gas distribution terms with the government. Page 17

Volvo reported first-half profits above expectations and said it would expand diesel engine collaboration with Deutz, the German engine group. Page 18

Fortis, the Dutch financial services group, said it sold a large part of its stake in Suez Lyonnaise des Eaux, the French utilities group, for FFr4.8bn ($798m) to help pay for its recent acquisition of Belgium's Generale de Banque. Page 18

David S Smith, the UK-based paper and packaging group, warned that trading remained at a "low ebb" after reporting that pre-tax profits fell 47 per cent to £51.1m ($84m) on sales down 5.7 per cent in the year to May 2. Page 23

Silicon Valley venture capital companies are complaining of a surfeit of money as a first-quarter PriceWaterhouseCoopers survey shows internet-related investment deals up 54 per cent to $459m over the period last year. Page 10

World Equity Markets
The latest trends and data from more than 50 national markets at a glance
Page 37

EU court outlaws price discounts on top-brand imports

By Neil Buckley in Brussels and Peggy Hollinger in London

European retailers' attempts to challenge the power of manufacturers and sell top-brand goods at cut prices were dealt a severe blow yesterday by a controversial ruling from the European Court of Justice.

The court ruled that store groups could not import lower-priced branded goods from outside Europe to be resold within the European Union without approval from the brand owners.

Many top-brand manufacturers of products from cosmetics to cars allow only upmarket retailers to sell their goods, barring supermarkets and discount outlets which they say could undermine their brand image.

Retailers – led by British supermarket groups such as Asda and Tesco – have tried to break such selective distribution networks by buying branded goods on the "grey" market, either from EU suppliers or in cheaper markets such as Asia or the US, and selling them at a discount.

By restricting that possibility, the Luxembourg court ruling has serious implications for the EU's policy of encouraging competition in the single market to bring European prices down to the levels enjoyed by US consumers.

The gap between European and US prices was highlighted by the British presidency of the EU earlier this year. Gordon Brown, UK chancellor of the exchequer, called for an investigation into the price gap.

The court backed a complaint from Silhouette, an upmarket Austrian sunglasses maker, against a cut-price chain, Hartlauer, which bought Silhouette glasses cheaply in Bulgaria and sold them in Austria at a discount.

UK retailers – for whom "grey" market sales are estimated to represent between £100m and £1bn a year – consoled themselves with the fact that the ruling affected only their right to source goods outside the EU, not within Europe.

But Tesco, the UK's biggest supermarket chain, condemned the ruling as a "dark day for consumers".

John Gildersleeve, Tesco's commercial director, said it would "hit those on lowest incomes most. Now we stand facing Fortress Europe in disbelief."

Tesco plans a counter-attack on the judgment by taking a jeans manufacturer – thought to be Levi Strauss – to the European Court over its refusal to supply clothing.

Syrian president Hafez al-Assad, left, on his first official Western visit in 22 years, was met by French president Jacques Chirac in Paris yesterday. Mr Assad wants Paris and its European partners to act as a counterbalance to the US and press Israel to resume talks on a 'land-for-peace' deal. Reuters

Schwab's on-line trading tops $2bn each week

By John Authers in New York

Charles Schwab, the largest US retail stock broker, yesterday announced that more than half of its total trading volume is carried out on-line, with securities worth more than $2bn changing hands on its web site each week.

Schwab's figures show there is heavy demand for on-line trading in the US, which has adopted it much faster than the rest of the world. Schwab has 1.8m active on-line customer accounts, which hold $128bn.

Its profits for the second quarter were up 19 per cent on the previous year at $78.3m, exactly in line with Wall Street estimates, and its share price rose as analysts reacted warmly to its ability to raise profits while converting more customers to on-line trading. By mid-session, Schwab had gained 4.27 per cent, up $1½ at $36⅞. This is still well below its high of $43⅞ set last December, but represents a sharp recovery. Last month, the stock dropped below $30 in response to worries about profit margins.

However, a continued decline in its average income per trade, and the fact it had cut its marketing expenditure sharply during the second quarter, meant there was still controversy among analysts over whether on-line broking could be a profitable business in the long term.

Average commission per revenue trade was $54.12, down from $63.59 a year ago, and $56.88 in the first quarter of this year.

Lauren Smith, an analyst with Putnam, Lovell, DiGuardiola & Thornton in New York, said the long-term profitability of on-line trading remained to be proved, and pointed to the reduction in Schwab's marketing expenses.

She was concerned about what would happen if the stock market became volatile. This might make it difficult for Schwab to continue to increase volumes, while its infrastructure costs had grown so it could not cut costs.

Schwab's on-line gains have been made despite its decision not to compete on price. Several discount brokers offer much cheaper on-line trading for investors who trade heavily. Schwab aims to attract "middle market" customers who normally use full-service brokers.

Spain may sell 25% stake in Casa to an Airbus partner

By Tom Burns in Madrid and Alexander Nicoll in London

The Spanish government is considering the sale of up to 25 per cent of Casa to one of the other partners in Airbus Industrie, the European aircraft-making consortium, as part of the privatisation of the Spanish aerospace company.

But Aerospatiale of France, which has expressed an interest in acquiring a stake, will be excluded as a potential buyer while it remains under state ownership. "It would be politically very difficult to explain that in the course of privatising a company we would be effectively putting it under the control of another government," a senior official of Spain's industry ministry said yesterday.

European industrialists said Casa was holding separate bilateral talks with British Aerospace and Daimler-Benz Aerospace of Germany – the other Airbus partners – which could result in at least one of them taking stakes in Casa's businesses. The talks are part of complex behind-the-scenes negotiations among European aircraft manufacturers which they hope will lead to their consolidation into a unified company which could challenge larger US rivals.

Casa's privatisation is provisionally scheduled for next year but the Spanish official said the timing of the disposal would depend on the timetable for the transformation of the Airbus consortium into a single company.

The government would like to achieve a mix of two industrial buyers – one an Airbus partner and the other a domestic company – and public flotation. The likely domestic partner is Gamesa, a company involved in manufacturing consortiums with Sikorsky of the US and Embraer, the Brazilian aerospace company.

The models for the disposal are the privatisation of Aceralia, the integrated steel company in which Arbed of Luxembourg acquired a 35 per cent stake, and the planned sale of 5 per cent stakes in Iberia, the national carrier, to British Airways and American Airlines. In the case of Casa, it is understood that not more than 25 per cent would be acquired by a foreign buyer.

WORLD MARKETS

STOCK MARKET INDICES		
New York: lunchtime		
Dow Jones Ind Av	9,256.00	(+61.53)
NASDAQ Composite	1,999.59	(+5.06)
Europe and Far East		
CAC40	4,358.13	(+13.83)
DAX	6,094.02	(-14.22)
FTSE 100	6,115.8	(-34.7)
Nikkei	16,731.92	(+117.78)
US LUNCHTIME RATES		
Federal Funds	5.56%	
3-mth Treas Bills: Yld	5.14%	
Long Bond	105⅜	
Yield	5.71%	
OTHER RATES		
UK: 3-mo Interbank	7⅞%	(7⅞%)
UK: 10 yr Gilt	110.0	(109.812)
France: 10 yr OAT	105.38	(105.35)
Germany: 10 yr Bund	109.17	(109.11)
Japan: 10 yr JGB	110.20	(110.39)
NORTH SEA OIL (Argus)		
Brent Dated	$12.555	(12.13)

GOLD		
New York: Comex		
July	$293.4	(293.8)
London:	$292.95	(293.05)
EXCHANGE RATES		
Dollar		
New York: lunchtime		
£	1.6385	
DM	1.79835	
FFr	5.9830	
SFr	1.5053	
Y	140.05	
London:		
£	1.6375	(1.6398)
DM	1.792	(1.8030)
FFr	6.0049	(6.046)
SFr	1.5051	(1.516)
Y	139.76	(140.43)
Tokyo Close		Y 139.72
Sterling		
DM	2.9343	(2.9454)

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Duma rejects sales and land tax measures

By John Thornhill in Moscow

Russia's parliament yesterday voted down several proposed tax-raising measures, part of the government's anti-crisis programme, casting doubts over the viability of the International Monetary Fund's $11.2bn rescue package and knocking share prices down by 5 per cent.

The Duma, the lower house of parliament, rejected draft legislation proposing a 5 per cent sales tax and two versions of a bill to raise land taxes.

Mikhail Zadornov, finance minister, accused MPs of irresponsibility by approving corporate tax cuts but rejecting tax rises.

"In this way the package for which we expected your support is being ruined," he said.

However, the government did notch up one vital victory when the Duma approved the main parts of a new tax code, which will form the basis of next year's budget plans. The new code promises radically to simplify Russia's existing tax legislation, cutting the overall number of taxes from more than 200 to about 30.

The IMF's board is due to vote on Monday whether to approve the loan to Russia. But it had previously said it wanted the bulk of the legislation in the government's anti-crisis programme to be enacted before it would release the first $5.6bn tranche. Parliament will continue the government's draft legislation today.

Par Mellstrom, Russia analyst at the Brunswick Warburg stockbroking firm said: "The statement by Zadornov sounded apocalyptic and that scared investors. But from the beginning it was clear that the Duma was against some of these taxes. I think the IMF deal will go ahead anyway."

The IMF's offer to provide additional financial support has been criticised in some quarters in Russia. Government critics claim the country is amassing too much debt and pursuing inappropriate economic policies under the IMF's diktat.

Nezavisimaya Gazeta, a newspaper widely assumed to be the soapbox for Boris Berezovsky, the influential businessman, alleged – without any evidence – that secret "military-political" conditions had been attached to the IMF loan.

While broadly welcoming the IMF's support, Victor Chernomyrdin, the former prime minister who aspires to the presidency in 2000, also warned that the government should not blindly follow the fund's terms.

Mr Chernomyrdin added it would not be "ethical" to follow the IMF's suggestions for reforming Gazprom, the giant gas monopoly formerly headed by Mr Chernomyrdin.

"If you let them, they [the IMF] will set you so many conditions and terms that they they will climb into your soul," he said.

Russian rescue gives east Europe a much needed lift

Initial enthusiasm and relief has been tempered by fears that Yeltsin may find it difficult to implement promised reforms, writes Stefan Wagstyl

The proposed international rescue deal for Russia has lifted a cloud from east Europe's financial markets.

But the relief could prove short-lived if the agreement falls through or investors focus on other troubled economies in the region, notably Ukraine. Stock markets as far apart as Estonia and Slovenia this week soared following the $11.2bn deal's announcement on Monday.

The Polish zloty and the Czech koruna rose so fast that the central banks intervened to hold down their currencies. Bankers and business people were relieved the package agreed by Russia and the International Monetary Fund has removed the threat of an early rouble devaluation.

However, enthusiasm was tempered by concern that Russia may find it difficult to implement promised reforms. "Everybody realises that unless the Russians now do something, the same situation will repeat itself in three months, six months or 12 months," says Alexander Kazbegi, an economist at US investment bank Salomon Smith Barney.

Moreover, even though this week's enthusiasm spread across the region, the degree to which individual countries are vulnerable to economic turmoil in Russia widens every year. In the east, Ukraine, Belarus and the Baltic states retain close links with Russia. But in the west and in the Balkans, Russia no longer looms as large as it did, before, economically speaking, even though it still exerts strong political and psychological influence. These countries, including Poland, the Czech Republic and Hungary, central Europe's three biggest economies, have "successfully disconnected themselves from Russia," says Jürgen Conrad, an economist at Germany's Deutsche Bank.

Also, central Europe's economies are generally stronger than those further east, especially Ukraine, which suffers from severe difficulties in financing government borrowing.

These differences have this year been writ large in the region's stock markets, as investors, particularly foreign fund managers, pulled away from the countries they judged the most vulnerable. A 50 per cent decline in Russian stocks in US dollar terms between the start of the economic crisis in early May and the end of June, when hopes of a settlement started rising, brought down Baltic shares by about 30 per cent.

But the average decline in Poland, the Czech Republic and Hungary was less than 15 per cent.

Not surprisingly, the recovery this week has come in proportion to the original decline: Russian stocks are up 25.9 per cent, Latvian 9.4 per cent and Estonian 28 per cent. By contrast, Polish equities have risen 5.9 per cent and Hungarian 6.4 per cent. "The recovery is more obvious in the weaker markets, which were more exposed to the contagion effect of Russia," says Sonja Gibbs, an economist at Nomura Securities, the Japanese securities company in London.

However, this week's stock market euphoria should not mask the problems still facing the region and investors in financial markets. Russia is not out of the woods, given that the IMF package is tied to controversial reforms which a recalcitrant Duma must pass. And the measures will not bring significant benefits unless they are followed by years of consistent market-oriented economic management.

Ukraine, which does over half its trade with Russia, is equally vulnerable to a government debt crisis.

Deutsche Bank estimates that Kiev's foreign exchange reserves of about $2bn are only slightly higher than its obligations to foreign investors holding short-term government paper which total $1.7bn. A further $500m in external debt repayment falls due in August.

It is negotiating a $2.5bn medium-term loan with the IMF, but yet to agree on reforms to be attached to the agreement.

Among the Baltic states, Latvia is in the weakest position with the biggest dependence on Russian trade and a high current account deficit of about 10 per cent. Estonia is also running a fairly large current account deficit of over 8 per cent this year, but this is offset by substantial inflows of foreign investment. Moreover, Estonia is a candidate for early EU accession and has a reputation for economic management unrivalled in the former Soviet Union.

In central Europe, economies are mostly stronger. Poland has the highest dependence on Russian trade. But at 8 per cent, it is a modest proportion of total trade.

The region still relies on Russian oil and gas, but is diversifying its supply sources. Also, only an extreme economic or political break-down in Russia would interrupt energy supplies given Moscow's dependence on oil and gas export revenues for hard currency.

In Budapest Zsuzsa Kun, an analyst at Caib Securities, a broker, says Hungary and other candidates for early accession to the EU (Poland, the Czech Republic, Slovenia and Estonia) are in a different economic league from the rest of the region.

However, Jacek Tomorowicz, head of the foreign department at the Polish finance ministry, warns against complacency. "Any serious disruption in Russia would have affected central European countries."

Perhaps the most vulnerable country in central Europe is Slovakia because it is particularly dependent on Russian energy imports and its economy is especially weak. Bratislava is running moderately high deficits on the current account and government account – estimated at 5 per cent and over 3 per cent respectively.

Also Slovakian companies have taken the risky decision to finance imports with short-term overseas borrowings to compensate for shortages on inflows of foreign investment.

Additional reporting by Christopher Bobinski in Warsaw, Robert Anderson in Prague and Kester Eddy in Budapest

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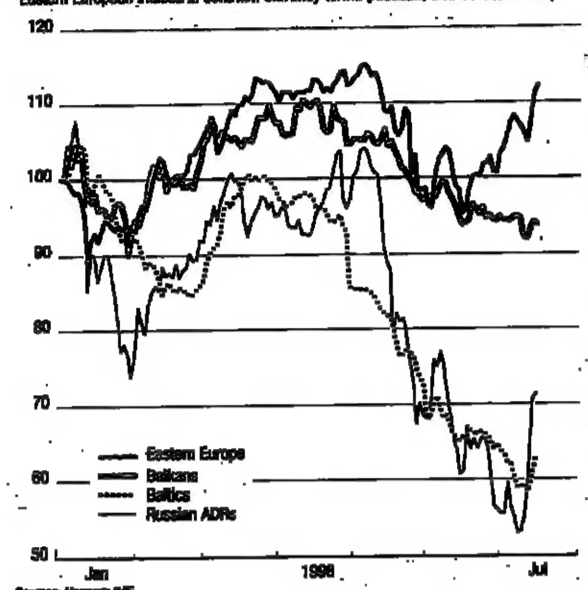
Russian contagion: the vodka effect

Eastern European indices in common currency terms (rebased, Dec 31 1997=100)



Merchandise exports to Russia (as a share of total)

Per cent	1996
Baltics	
Estonia	16.7
Latvia	23.2
Lithuania	23.8
Central Europe	
Czech Republic	3.2
Hungary	6.1
Poland	6.8
Slovakia	3.5
Balkans	
Croatia	2.9
Romania	2.0
[illegible]	[illegible]

* derived from partner records

Spain's Piqué makes debut

By Tom Burns in Madrid

Spain's industry minister, Josep Piqué, who has spearheaded a rapid privatisation programme, makes his debut today as a government spokesman in what is viewed as a political gamble by José Marí Aznar, the prime minister, to secure relations with his Catalan nationalists allies.

A senior cabinet aide said the appointment of Mr Piqué is a bid by the premier to widen his political base at the halfway stage of his four-year term of office.

The new spokesman, a Barcelona-based businessman before he became industry minister, is not a member of Mr Aznar's centre-right Popular party and the prime minister's decision to enlarge his remit as spokesman is as surprising as was his inclusion in the government following the Popular party's narrow electoral win in 1996.

Mr Piqué will inaugurate his additional duties today when he briefs the press after the cabinet's weekly meeting. He replaces Miguel Angel Rodriguez, a close associate of Mr Aznar for more than 10 years, who abruptly announced his resignation during last Friday's briefing.

Mr Rodriguez, who did not have cabinet rank, said he resigned on personal reasons. But commentators allege that he bowed out because his outspokenness had gained him the hostility of the Catalan nationalists, whose support for Mr Aznar in the Madrid parliament, where the Popular party is short of an absolute majority, is vital to the government's stability.

Mr Rodríguez recently clashed with Catalonia's autonomous government over its plans to step up Catalan teaching in schools and earlier this year he ridiculed a nationalist bid to create a Catalan football team saying it should organise a national squad to play marbles in international competitions.

Mr Piqué, who is himself a Catalan and spends most weekends in Barcelona, is likely to ease tensions with the area's nationalists.

He has made his mark in politics as one of the government's most enthusiastic backers of a deregulated economy by introducing legislation to liberalise the energy sector, and privatising a string of state-owned companies including the dominant power group Endesa.

Mr Aznar restated this week his determination to serve out his full term until the spring of 2000 but the appointment of Mr Piqué has fuelled speculation that he could be planning an early general election in a year's time when municipal, regional and European parliament elections are due.

Moscow T-bills soar ahead of deal

Investors and markets weigh their options ahead of government's eurobond swap plan

By Charles Clover in Moscow and Jeremy Grant in London

Russia's treasury bill prices have soared this week in the wake of the government's offer to swap its rouble-denominated short-term debt for dollar-denominated eurobonds. Yesterday the market registered its largest-ever trading volume, as 11bn roubles ($1.8bn) of treasury bills changed hands.

"That shows that the deal is already a success," said Oleg Bouklemishev, head of international capital markets at the Russian finance ministry.

On Wednesday, the prices of treasury bills on the secondary market rallied to within 2 per cent of the advantageous prices being offered by the government to buy the instruments and convert them to eurobonds, driving yields down to 50-60 per cent from over 100 per cent on Monday.

Prices fell slightly yesterday on profit taking, bankers said. The conversion is an attempt to save the Russian government some of the costs of servicing its $70bn treasury bill market, which at present eats up one-third of federal budget revenues, and has caused a run on the country's foreign exchange reserves.

It is an integral part of an emergency fiscal reform programme that the government is pursuing, for which the International Monetary Fund on Monday pledged $11.2bn in extra loans in 1998.

The government is offering to trade all treasury bills maturing before July 1999, a total nominal value of 256bn roubles ($41bn), for dollar denominated eurobonds maturing in seven and 20 years. Experts think total appetite for the conversion may be $3bn-$6bn.

To convert this debt, the government is offering a hefty premium to purchase the treasury bills, but does not appear to be offering any bargains for the eurobonds.

Mr Bouklemishev said the minimum eurobond yield being guaranteed to investors was slightly under 14 per cent, not much higher than current yields in the Russian eurobond market.

He explained that the government did not wish to hurt investors who already hold Russian eurobonds by offering very high yields to the swap-takers. Investors have until today to submit bids for the eurobonds.

"Whether you take the offer partly depends on what you think will happen to the GKO market [Russian treasury bill market] next week, after the offer is withdrawn," said one fund manager.

But Michael Sherwood, head of the emerging markets fixed income department at Goldman Sachs, the US investment bank which is lead-managing the deal, thinks the market boom is the direct result of the government's conversion offer, and will subside next week.

There are some tricky technical and legal hurdles that foreign investors, who account for one-third of the treasury bill market, need to overcome before Russia can expect much of a response from them.

Bankers estimate at least half the foreign investors in Russian treasury bills have accessed the market by buying a credit derivative on the underlying security.

A credit derivative is a transaction between two parties that allows one party to sell to the other the risks of a borrower defaulting. They have rocketed in popularity in the past six months as a way of protecting against risks associated with the Asian financial crisis and Russian turmoil.

Investors are then exposed to the risks and the yields of the GKO market, but the banks which have sold them the credit derivatives actually own the GKOs.

Bankers say that the tight schedule for the exchange offer means investors and their bankers may have trouble untangling their credit derivative and GKO holdings in time for the offer.

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R

Brussels in clash over Italian airport

By James Blitz in Rome

The Italian government and the European Commission have this week been locked in a dispute over plans to open the new Malpensa airport outside Milan, amid claims it would unfairly advantage Alitalia over other European carriers.

In a confrontation that has pitted Neil Kinnock, EU transport commissioner, against Romano Prodi, Italian prime minister, the Commission is insisting Rome must reconsider plans relating to inauguration of the airport on October 25 this year.

Mr Kinnock has taken a tough stance on the Malpensa airport after receiving complaints from nine European carriers, including British Airways and Air France, that they were being forced to start using an airport with poor road and rail connections to Milan city centre.

Mr Kinnock's objections have triggered a backlash from Italian politicians, who claim Alitalia's rivals are trying to stop it exploiting one of the most lucrative domestic passenger markets in Europe.

Mr Kinnock's office is taking its stance because of the arrangements the Italians have made for distribution of air passenger traffic at Malpensa and Linate, the other airport that has long been serving Milan.

The Italian government has decreed that, from October, Linate will only serve flights carrying more than 2m passengers a year. This, the Commission says, means the airport – a few kilometres outside the city – will only be able to service the busy Alitalia domestic link between Milan and Rome, from which Alitalia passengers can then take the Italian carrier's intercontinental flights.

Alitalia's rivals fear their own intercontinental customers in northern Italy will now have to use Malpensa as a feeder airport taking them on the first leg of the journey to their hubs in Paris, Frankfurt and other European cities.

But Malpensa is more than 50km outside Milan and will have no rail link to the city until the year 2000. A taxi ride on the already congested road link costs L150,000 ($83.6).

The Commission insists it is not seeking closure of Malpensa, which has already cost L2,000bn to build. Instead, Mr Kinnock is asking the Italian government to allow European airlines to feed some of their hubs out of Linate while the Milan-Malpensa road and rail infrastructure is completed.

If Italy does not agree, Mr Kinnock's office could reconsider its decision to allow the Italian state to provide financial support to Alitalia.

Claudio Burlando, Italy's transport minister, reiterated this week that Rome was only willing to make limited concessions. This would include creation of a rail and coach shuttle service that would allow passengers from Milan to reach Malpensa within an hour.

NEWS DIGEST

EXPORT CONTROLS

Russian enterprises face US sanctions

The United States is imposing trade restrictions and halting assistance to nine Russian enterprises charged with helping Iran, Libya and North Korea develop weapons of mass destruction or missiles to deliver them.

Mike McCurry, White House press secretary, announced the sanctions, saying Russia's commission on export controls has conducted an investigation of nine "entities" involved in forbidden technology or materials transfers. They are the INOR scientific centre, the Grafit and Polyus research institutes, the Tikhomirov institute, Glavkosmos, the Komintern plant in Novosibirsk, the MOSO company, Baltic State Technical University and Europalace 2000.

The US sanctions include a ban on sales to the companies of commodities that could have military uses. Imports from the nine enterprises will also be banned as well as US trade credits.

With the sanctions and the stress on Russia-US co-operation in the case, the White House hoped to head off a congressional override of President Bill Clinton's veto of the Iran Missile Proliferation Sanctions Act, which targets both Russian and Chinese companies. **Nancy Dunne, Washington**

EU REGULATIONS

Move against sales ban

The European Commission yesterday said German legislation prohibiting promotional selling through discounts and gifts was incompatible with European law.

The Commission, the European Union's executive, threatened to take legal action before the European Court of Justice if the German government does not provide a "satisfactory reply" within two months.

"The German legislative provisions, which date from the 1930s, prohibit the granting of promotional gifts and discounts," the Commission said. "These rules make it virtually impossible for a new entrant on the German market to provide direct marketing of goods and services on economically viable terms." **Samer Iskandar, Brussels**

DUTCH COURTS

BolsWessanen case fails

Judges in Amsterdam yesterday dismissed all charges in a two-year insider dealing case involving BolsWessanen, the food and drinks group. The outcome is the latest in a series of humiliations for Dutch prosecutors in financial scandals. Only one insider case has been made to stick since the law was tightened nearly 10 years ago.

Among those freed were three Amsterdam options traders and Teunis-Jan van Noort, a divisional director of Bols at the time of his arrest in September 1996. Prosecutors had demanded jail terms ranging to 15 months, alleging that he had alerted the three in advance to price-sensitive information the group was to announce.

The case was based on evidence that the defendants had met regularly in 1994-95 at Blanje Bleu, a modest restaurant near Mr van Noort's home in Bentveld, west of the capital. Two restaurant managers were also charged.

All except the Bols executive had dealt at crucial times in shares or options in the company, with profits totalling some Fl 686,000 ($343,000). The legal bench rejected the evidence as circumstantial. The state immediately gave notice of an appeal. **Gordon Cramb, Amsterdam**

CAR SALES

Strong showing in June

New car sales in western Europe continued to grow above expectations last month, with a rise of 7.2 per cent year on year to 1.22m units. The strong performance took registrations in the first six months to 7.51m – an increase of 7.6 per cent from the same period last year.

Sales rose in all but three of the 17 countries tracked by the European Automobile Manufacturers' Association, confirming the robust state of the car market, compared with forecasts of 1-2 per cent growth earlier this year.

Registrations continued to be influenced by government incentive plans. The 1.5 per cent fall to 216,000 in Italy reflected strong sales last year on the back of incentives. Spanish sales surged by more than 25 per cent to almost 116,000 units because of scrapping incentives.

Japanese and Korean brands continued their determined push into Europe. Sales of Japanese marques rose by 11 per cent last month, putting them collectively second in the sales league behind the Volkswagen group.

Exports by Korea's carmakers, hit by the slump at home, soared by more than 36 per cent.

The rise took the Korean share of the European market to a record 2.8 per cent and is likely to reinforce calls by European carmakers for better access to the Korean market.
Haig Simonian, Motor Industry Correspondent

HUNGARIAN CRIME WAVE

New police chief named

Sandor Pinter, Hungarian interior minister, appointed Peter Orban as new national police chief yesterday. The move comes after the three top police officers were dismissed earlier this week, and in the wake of election promises by the new prime minister to improve public security.

Hungary has seen a sharp rise in visible crime since the political changes of 1990, including much publicised criminal turf war battles in the past three years. These culminated in a bomb attack in central Budapest which killed four people two weeks ago.

Brigadier General Orban, formerly deputy chief in charge of public security, pledged firmer action in particular against organised crime, prostitution, burglary and car theft and to seek closer ties with the tax authority and customs authorities.

Changes are also expected at the senior levels in the Budapest local police force in the near future.
Kester Eddy, Budapest

KURDISH FIGHTING

Turks lose 22 in attack

Thousands of Turkish troops were engaged in a large-scale operation yesterday to track down around 50 Kurdish separatist rebels who killed 22 security force members in an attack on an isolated army post.

"The pursuit operation is continuing, but as yet there has been no hot contact with the terrorists," a security official in the south-eastern capital of Diyarbakir said.

Kurdistan Workers' Party (PKK) guerrillas launched rockets and fired automatic weapons at the post in the far south-eastern corner of Turkey close to the borders of Iran and Iraq late on Tuesday.

The attack ran contrary to recent claims by the Turkish military that it had all but defeated the PKK, fighting for self-rule in the mainly Kurdish southeast of the country since 1984. More than 28,000 people have been killed in the conflict.
Reuters, Diyarbakir

مكرر من الأصل

LONDON CLUB DEAL BANKERS SEE BOOST TO YUGOSLAVIA'S PUSH FOR BETTER TIES

Belgrade agrees outline of $1.7bn debt restructuring

By George Graham, Banking Editor

Yugoslavia yesterday agreed the outlines of a $1.7bn debt restructuring programme with its commercial bank creditors, after two years in which the two sides appeared irreconcilable.

The restructuring deal agreed with the London Club of bank creditors is unlikely to be implemented in the immediate future, since it depends on a licence from the US Treasury to unfreeze Yugoslav assets in the US and on Yugoslavia rejoining the International Monetary Fund.

But bankers hoped the agreement might give an impetus to Belgrade's efforts at rapprochement with the international community which has ostracised it since the early 1990s over its role in the Bosnia war.

They expect to press ahead with documentation and treat the restructuring deal like a shelf registration of securities, ready to be activated when political conditions are ripe.

Jovan Zebic, deputy prime minister, said: "The understanding represents a positive first step towards normalising relations with the Federal Republic of Yugoslavia's international commercial creditors".

The restructuring terms represent a dramatic softening of the Yugoslav position. When a delegation last met bankers, the Belgrade government was still demanding that its bank creditors should forgive 80 per cent of the principal it owed.

Yesterday's understanding defers interest and principal payments, but forgives only 33 per cent of accrued interest. None of the principal is forgiven.

Bankers said they had seen a marked change in attitude in the Yugoslav government in the past six to eight weeks, with officials showing much greater willingness to negotiate constructively.

Yugoslavia's $1.71bn bank debt, including accrued interest, will be restructured in three instruments. Around $915m of 20-year capitalisation bonds will be issued covering three quarters of the principal owed to London Club creditors. These will accrue interest at Libor plus 13/16 per cent, but most of the interest will be capitalised until year seven.

Another $615m of performance bonds will be issued, covering the remaining 25 per cent of principal and 67 per cent of accrued interest. They will accrue interest at the same rate, but this will be capitalised until Yugoslavia wins access to foreign financing, either by obtaining a BB- credit rating from Standard & Poor's or by raising $600m of foreign currency loans.

These terms are viewed as less favourable to the banks than those agreed with Slovenia and Croatia, but more so than those struck with Macedonia and Bosnia.

Emil Constantinescu, Romania's president (right) shakes hands with John Wolfensohn, World Bank president, before signing two World Bank loans for the country on Wednesday Reuters

DUMPING ROW BONN REJECTS COMPROMISE

Germans split over handling of coal dispute

By Peter Norman in Bonn

A split opened up yesterday between the government of the German state of North Rhine Westphalia and the federal government in Bonn over how to handle a dispute with the European Commission over the alleged misuse of state aid to two German anthracite producers.

The state government in Düsseldorf indicated that it would favour a compromise with the Commission and British producers over complaints under European Union rules that the German companies dumped subsidised coal on the UK market. But Günter Rexrodt, the Bonn economics minister, yesterday insisted that such an approach would only trigger further complaints, putting German coal mining jobs at risk.

The Commission is due to rule on July 29 on a case brought by six British companies that state aid to the Ibbenbüren mine of Preussag Anthrazit and Ruhrkohle's now closed Sophia Jacoba mine was used illegally to help finance the sale of 100,000 tonnes of German anthracite in Britain. If the German companies lose the case, Preussag Anthrazit could have to pay back DM122m ($67m) in subsidies, bankrupting the company, while Ruhrkohle could face a DM55m bill.

The dispute was discussed on Tuesday between ministers from North Rhine Westphalia and the Commission. The German delegation, headed by Wolfgang Clement, the state prime minister, and including Bodo Hombach, state economics minister, returned with the impression that the Commission is likely to find against the German mines.

Interviewed in his Düsseldorf office, Mr Hombach stressed that his government, like that in Bonn, is convinced the complaints are groundless. But while fighting the issue as a matter of principle, he is thinking of the future should Germany lose. "Confrontation is not clever. A consensus solution would be best for all," Mr Hombach said.

One possible solution discussed with Christos Papoutsis, the EU energy commissioner, would be for the German companies to admit some wrongdoing and repay around DM21m of subsidies to reflect the relatively small volume of coal involved. But Mr Rexrodt warned yesterday that any repayment would open the way for new complaints from Britain against Germany's support for its coal industry.

Mr Hombach indicated that his preferred solution would open the way for the sale of British coal in Germany. "Ibbenbüren will be worked out by 2006. The British companies should be thinking about future market opportunities."

PROCESSING AND RECYCLING REPUBLICAN-LED MISSION IS KEEN TO EXAMINE FRENCH SOLUTIONS TO TACKLE GROWING US PROBLEM

US studies French nuclear waste methods

By Sarah Valenti in Paris

The usually inaccesible nuclear reprocessing plant at La Hague in northern France has just opened its doors to some interested visitors.

A US congressional delegation came to look over the plant, owned by the state-run Cogema group, as part of a tour of France's reprocessing and nuclear waste recycling facilities. The Republican-led mission was keen to examine the feasibility of using French solutions to tackle the growing problem in the US of dealing with the controversial issue of nuclear waste disposal.

Pete Domenici, US senator for New Mexico and leader of the delegation, said the US needed to reconsider its nuclear waste policy, which for the past 20 years has been conditioned by the Carter administration's decision to abandon the reprocessing industry and adopt a storage policy.

"The Carter decision was made in good faith but it was wrong, and today the fuel control is not satisfactory," he said.

Officials at Cogema, seeking new outlets for their know-how, were aware of the Republican senators pro-nuclear stance. The delegation was also taken to Cogema's original uranium enrichment plant in the south-east at Pierrelate and the Melox plant that reprocesses plutonium. The delegation appeared undeterred by a recent controversy when rail wagons that were loaded at La Hague were discovered emitting unacceptably high levels of radiation. The ensuing row led the Germans to suspend reprocessing shipments to La Hague.

France, Germany, Japan and the UK have concentrated on the reprocessing and recycling of spent fuel. This consists of separating and packaging the three components of the fuel – uranium, plutonium and the non-reuseable waste. The non-reusable waste is the most dangerous and has to be stored. In contrast the US opted for deep underground storage of spent fuel in special containers. But successive governments have not built a permanent underground depot despite a levy imposed on the electricity companies that raised $13bn. As a result US nuclear power stations that generate electricity store waste in specially constructed pools.

"We are in a hole," said Senator Rodney Grams. Senator Grams and his Republican colleagues believe reprocessing plants like La Hague can be promoted as environmentally friendly as they do not emit carbon dioxide. Another attraction is the reprocessing industry offers more effective control over plutonium stocks derived from the dismantling of nuclear weapons.

However, the French nuclear reprocessing industry is under attack from environmentalists because they believe that in the long term it may not be safe.

Swedish voters may punish Persson over unemployment

The Social Democrats look like losing electoral support despite their solid economic record, writes **Greg McIvor**

Sandwiched between advertisements for suncream and Mediterranean beach holidays, the first campaign posters for Sweden's forthcoming general election appeared on the walls of Stockholm underground stations this week.

Undeterred by the summer holiday exodus that practically shuts down urban Sweden in July, the political parties are in full swing with their electioneering before the ballot in September.

First to the billboards were the ruling Social Democrats, promising greater "security, wealth and a more caring" society if re-elected. Not to be outdone, opposition party leaders have spent the week cranking up their rhetoric during a week of political rallies on the Baltic island of Gotland.

Persson: his fusty image undermines party's popularity AP

The minority SDP government of Göran Persson is hoping its solid economic record and a pledge to concentrate on raising welfare service standards after the election will suffice for a new four-year mandate.

But for all its success in eliminating Sweden's budget deficit and delivering a benign economic climate of low interest rates, steady growth and minimal inflation, the party appears likely to fall short of the 45 per cent share of the vote it scored last time.

Its popularity has suffered from Mr Persson's fusty image and a failure to cut unemployment significantly. The rate has fallen in recent months, but at 6.9 per cent – a figure which excludes large numbers on government-sponsored training schemes – is seen by Swedes as unacceptably high.

Opinion polls point to the SDP being returned as the largest party, but with a reduced mandate – an outcome which could force it to horse-trade with two left-wing parties, the Left and the Greens, to stay in power.

During the past four years Mr Persson has relied for support on the pro-green Centre party. But the link – a rare collaboration across Sweden's socialist and "bourgeois" political blocs – did not bolster the Centre's flagging popularity as its leadership had hoped.

Internal misgivings about the co-operation intensified, culminating in the replacement of Olof Johansson, the party leader, in June. His successor, Lennart Daleus, immediately made clear his intention to loosen ties with the SDP.

Mr Daleus, seen as a possible post-election kingmaker, favours a centrist coalition with two fellow centrist parties, the Liberals and Christian Democrats.

This would imitate Norway, where a minority Christian Democrat-led administration took power last autumn despite winning barely a quarter of seats in parliament. But most political observers in Stockholm believe such a constellation would be short-lived in Sweden unless it included the main opposition conservative Moderate party led by Carl Bildt, the former Bosnian peace envoy.

It looks increasingly likely that the SDP will have to look to the left for support

In any case, the Moderates – larger than the three centrist parties put together – will need to improve significantly on their current opinion poll rating to stand a realistic hope of forming a viable government.

Mr Bildt favours cuts in Sweden's heavy tax burden, adoption of the European single currency and possible Nato membership. This agenda shows no sign, however, of being able to woo sufficient numbers of disaffected Social Democrats to hand Mr Bildt an election victory.

To win, the Moderates will probably need more than 30 per cent of the vote – which would be a party record – and hope that support for the three centrist parties holds firm. Then there would be the job of wooing Mr Daleus.

If it looks increasingly likely that the SDP will have to look leftwards for support after September, the prospect has had little discernible negative effect on financial markets.

Investors did not bat an eyelid when the Left, a staunch opponent of European Union membership, indicated this week that the price of its support would be a referendum on the single currency, a shorter working week, further decommissioning of nuclear power plants and radical income redistribution.

On the contrary, Swedish government bond yields continued drifting to near-record lows and the stockmarket hit a record high.

Hans-Olov Bornemann, Nordic equity strategist at Deutsche Morgan Grenfell in Stockholm, says the SDP's deficit reduction drive of the past four years has convinced the market of its commitment to fiscal probity.

In any case, he says, the government has little possibility to deviate from the fiscal and monetary targets set up by euro-zone countries.

The SDP, Mr Bornemann believes, will stick to pre-set spending ceilings even if forced to rely on the Left or Greens for support. "They will not come up with a big fiscal stimulus, although there may be some redistribution of income."

Others, though, are more cautious. Robert Prior-Wandesforde, European economist at HSBC James Capel in London, said the market had yet to weigh fully the implications of an SDP left dependent on leftwing backing. "I think [the SDP] will stick broadly to their fiscal plans but there must be a risk that, with the public finances being as healthy as they appear, there is a temptation to slip a few spending increases through."

Indian court overrules telecom regulator

By Mark Nicholson in New Delhi

MTNL, the Indian telecommunications company, yesterday won clearance to compete with private cellular operators in Delhi and Bombay after a court ruled against the industry's independent regulator and upheld the government's right to award the state-run company a cellular licence.

The Delhi high court ruling is the latest legal salvo in a continuing battle between the department of telecoms and the regulator over the award of licences. Yesterday's ruling effectively circumscribes the powers of the Telecom Regulatory Authority of India (Trai), the market watchdog, which had claimed the right to vet licence applications.

The verdict angered private cellphone operators in the two cities – four Indian-foreign joint venture companies which won a cellular licence bidding round in 1992. They claimed MTNL, which already operates fixed-line services for 3.5m consumers in the two cities, would offer unfair competition.

T.V. Ramachandran, vice-chairman of the Cellular Operators Association of India, said it was likely the private operators would appeal the verdict, taking it to India's supreme court if necessary. "We are very disappointed with the order. We think it's going to have a negative impact on investment in the sector."

The private joint ventures, which include participation by British Telecom and Swiss Telecom, also claimed MTNL had not been subject to the same terms and conditions which had governed their earlier bids.

MTNL, meanwhile, hailed the decision, and is proceeding with a $1bn equipment tender with the aim of establishing cellular services in Bombay and Delhi early next year.

The dispute arose earlier this year when Trai took up the cause of the private cellular licensees in Delhi and Bombay, which had strongly objected to the state-run company's right to enter the tight cellular market in India's two biggest cities. Trai protested against the department of telecommunications' award of a licence to MTNL, arguing it was invalid without the regulator's prior approval.

The department of telecommunications immediately took an appeal against Trai to the Delhi high court. In yesterday's ruling the court found Trai's claim suffered from "legal infirmities", saying the regulator was "in error" in believing it held any mandatory powers in the award of licences.

Mr Rajagopalan said MTNL aimed to have cellular services running by March next year. He said the company expected to gain 100,000 subscribers in each city within the first year – about as many as the more successful private operators have achieved in three years. He said MTNL would decide within three months on its equipment supplier, having this week opened bids for the estimated $1bn contract from Ericsson, Motorola, Nokia, Alcatel, Siemens, Tata-Lucent Technologies and Nortel.

MTNL's entry into the cellular market comes amid deepening gloom among cash-strapped private operators, which are separately lobbying the government to offer a two-year moratorium on licence fee payments and to extend current cellular licences to 15 from 10 years.

CHINA ASIAN COMPETITORS ARE UNDERCUTTING COMPANIES BOTH IN DOMESTIC AND OVERSEAS MARKETS

Textile industry to lay off 600,000

By James Kynge in Beijing

China's textile industry is to lay off about 600,000 workers this year as Asian competitors undercut Chinese companies both in the domestic market and overseas, officials said yesterday.

Xu Xihe, deputy director of the China National Textile Council, the industry's main policy body, said that China's textile exports this year might register zero growth or even decline.

In the first five months, he said, textile exports were up 9 per cent, compared with a 22 per cent rise for the whole of last year.

"In May there was a big slump in exports and it is going to get more and more difficult for the rest of the year," said Mr Xu.

China is one of the world's largest textile manufacturers and exports account for nearly 25 per cent of the nation's total export value.

But China's refusal to devalue its currency despite sharp depreciations in other Asian nations has eroded its competitiveness. In no industry has the pain been more keenly felt than in textiles.

"The Japanese yen has fallen and in Indonesia and Thailand the currencies are still falling. This exerts a great pressure on China's economic situation," said Mr Xu. He added, however, that a devaluation of the renminbi at this moment would only exacerbate the problem by triggering further currency instability in Asia. "This would be very bad for China."

Mr Xu said Beijing suspected some South Korean companies of dumping polyester on China's market, thereby forcing Chinese manufacturers to sell at below cost price in the domestic market.

In 1995 the price of short fibre polyester in China was RMB23,000 ($2,781) a tonne. Now the Koreans are selling polyester for as little as RMB6,000 a tonne.

But before legal action could be taken against the Korean companies, China's anti-dumping mechanisms would have to be improved, Mr Xu said.

Another problem was the considerable smuggling of imported textiles.

The increased competition has added urgency to the task of restructuring a grossly inefficient state industry.

The 600,000 people to be laid off this year were to come from a total of 4.3m workers in state-owned textile factories, about 100 of which were under bankruptcy proceedings, said Mr Xu.

The redundancies will help reduce losses throughout the industry to an estimated RMB4bn this year from RMB8.7bn last year and RMB10.6bn in 1996.

Many of the factory closures and redundancies are being found in the cotton industry.

China has 41m spindles for cotton but demand could be satisfied by the output of just 30m. Mr Xu said that the 11m in excess spindles would be cut over the next three years.

For every 10,000 spindles cut, the state was obliged to provide RMB3m in subsidies for redundancy payments to the workers, he said.

CHINA HEALTHCARE

Beijing to extend insurance scheme

By Frances Williams in Geneva

The Chinese government plans to extend an experimental medical insurance scheme to its entire rural population of 900m people, following the success of a pilot project designed in collaboration with the World Health Organisation.

The scheme is intended to fill a huge gap in medical insurance coverage in rural areas, where the bulk of the Chinese population live. They are generally not covered by workplace or government insurance schemes available to urban workers.

WHO officials said yesterday that Beijing's goal was to extend medical insurance to 80 per cent of the rural population by 2010, compared with 10-15 per cent now.

A system of co-operative medical services covered more than 90 per cent of China's villages in the 1970s. However, according to Guy Carrin, a WHO health economist, by 1989 fewer than 5 per cent were operating as the collectivised agricultural system gave way to a household-based market economy.

Under the new scheme farmers and rural workers pay a small insurance premium into a co-operative fund that reimburses part of the cost of medical treatment. Rural enterprises and sometimes local authorities also contribute to the fund. Contribution and reimbursement levels are decided at the local level.

A pilot project has been running for the last four years in 14 rural localities in China with a total population of 8.7m. Though the schemes have had varying success, nearly 70 per cent of the eligible population on average have joined a Rural Co-operative Medical Care System (RCMS).

In return for contributions of at most RMB30 ($3.60) per person a year, farmers and rural workers receive reimbursement of up to 50 per cent of healthcare costs for outpatient and hospital treatment using Chinese and western methods.

The Chinese plan is seen as something of a triumph for the WHO which, at Beijing's request, helped design the scheme and carry out the pilot projects. Mr Carrin said the insurance scheme, a completely new concept for China, would help make healthcare accessible and affordable for the entire population.

Infant mortality is higher and life expectancy 5-10 years less in rural areas in China than in the richer cities. The WHO, which believes that the RCMS system will result in better primary healthcare services and improved health overall, will be monitoring the scheme's expansion over the next few years.

CHINA SUCCESS STORY TURNS SOUR AS EXPORT MARKETS COLLAPSE

Once-booming port caught in Asian storm

By James Harding in Dalian

On an overcast weekday morning, Mr Li stepped out on to the ledge on the 30th floor of Harbour Mansions and threatened to end his life.

The Chinese businessman was bankrupt. The entertainment centre he had built in Dalian, a once booming port on China's north-east coast, had failed. He faced huge debts he could not hope to repay.

Behind him the emergency services as well as his wife, his son and other relatives and friends had rushed to the top-floor office and from the window were coaxing him back indoors. Below, a lunchtime crowd had gathered for a spectacle that smacked more of New York or Tokyo than a charming, old colonial city in provincial China.

Mr Li stood out on the ledge for nearly five hours, churning over his misfortune. And then he jumped.

The suicide last month has shaken Dalian. Elsewhere in Asia bankruptcy has driven businessmen to kill themselves before – indeed, the increase in the suicide rate in Japan in the last year has been one of the most shocking aspects of the region's economic crisis – but in China's forgiving socialist market economy business suicides are almost unheard of.

"This is a communist country. If a company has a problem, if it has big debts, if it is bankrupt, it can sort it out with the government," says one Dalian resident, capturing the general mood of surprise and bewilderment. "To kill yourself for a bank loan... you must be sick in the head."

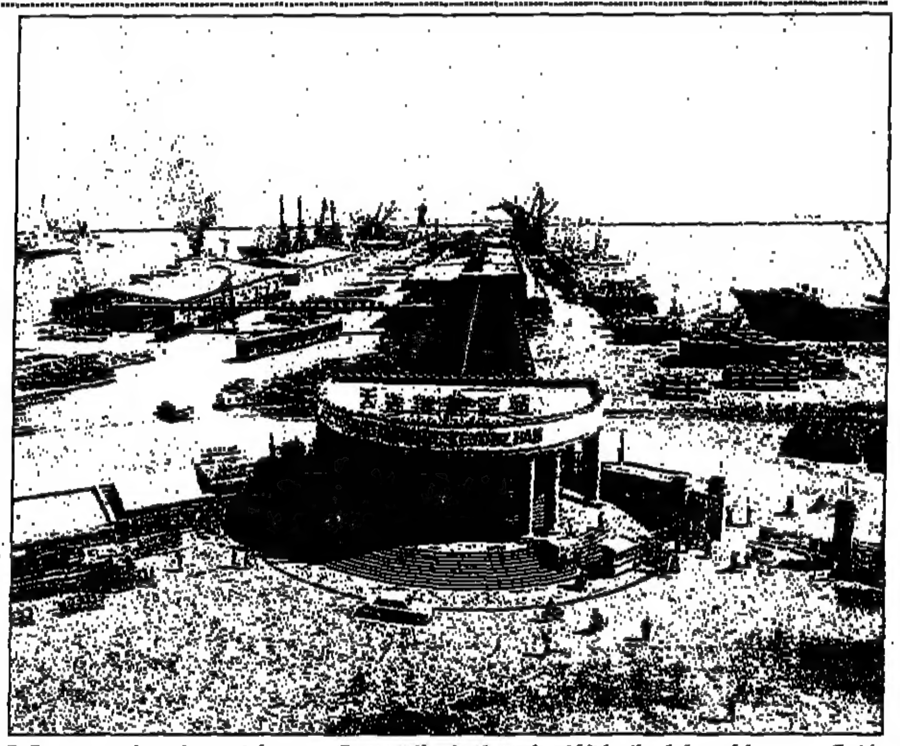
Yet Mr Li is said to have been a decent, personable man. Whatever the darker personal problems that may have driven him to take his life, the death has had an unwelcome resonance: in Dalian these days a suicide is extraordinary, but a troubled businessman is not.

Until very recently the city was the success story of north-east China. Dalian, whose many municipal gardens, broad boulevards and rattling tramways date back to earlier this century when the city switched back and forth between Russian and Japanese rule, was reborn thanks to a combination of government policy and geographic position.

Bo Xilai, the city's presentable mayor, sold Dalian as a haven for investment and a hub for regional trade by playing up the port's natural advantages as a gateway between northern China and the markets of South Korea and Japan. He backed this up with an attractive package of incentives for foreign investors. By the end of last year Dalian had attracted actual foreign investment of roughly $5.5bn and boasted annual trade of $5.1bn.

The economy has more than doubled in size in the last five years. And, to judge from the élite designer labels in the shopping malls, the clusters of people that meet in the evenings to dance, chat and play badminton in the grand public squares and from the sports cars on the forecourts of fancy hotels, much of the brash prosperity that has distinguished the city from the surrounding rustbelt endures.

But the boom was largely based on business with Asia.

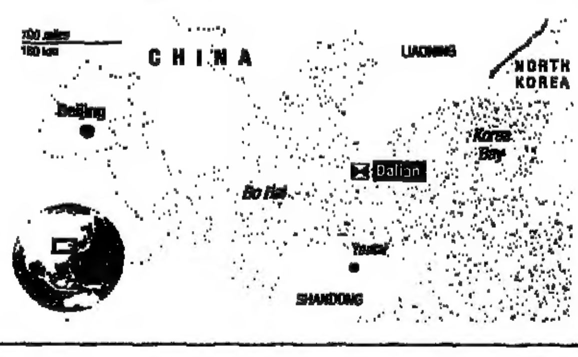


Dalian, a once booming port, has seen its exporting business hard hit by the Asian crisis Corbis

So, while a couple of years ago people used to joke that half the city was built with Asian money, it is no joke nowadays that some projects are indeed only half-built.

Hyundai, the large South Korean group and a substantial investor in Dalian, has built the frame of its 38-storey Xiwang (Hope) Building, but has delayed completion until next year. This is for several reasons, it says, "one of them the impact of the financial crisis".

Other half-finished tower-blocks in central Dalian seem to have unnerved the municipal authorities, who have issued instructions to developers that even if the interiors of their buildings are not completed, they must finish cladding the exterior to keep up appearances.



"In the past few years 80 per cent of investment has come from neighbouring economies," says Jin Richen, a senior official at the city's Commission of Foreign Economic Relations and Trade, "so the Asian financial crisis has really had a very negative effect on the Dalian economy".

Hong Kong, Japan and South Korea – in that order – are the biggest sources of investment for Dalian.

In the first quarter of this year the Dalian economy, which skipped along with double-digit growth since 1991, grew by 3.2 per cent. Foreign investment in the first six months of 1998 has fallen by 50 per cent.

Mr Jin sees trouble ahead: "We can gradually see the effect of the collapse of the yen. If the economic recession in Japan continues we will probably see the effect here in the latter half of this year."

The city's exporting businesses, which sell half their goods to Japan and most of the rest to South Korea and other nearby countries in Asia, have been hard hit.

"There are many, many companies that export and are hoping for a devaluation of the renminbi [the Chinese currency]," he says. "But, taking the long-term view, we should not devalue."

By contrast, China's largest shipbuilder, Dalian New Shipyard, has said it needs a 20 per cent devaluation to restore the competitive edge it has lost to rival shipmakers in Japan and Korea.

To counter the effects of the problems in the region, Dalian is trying to market itself to US and European buyers and investors, as well as focus on improving efficiency in domestic enterprises.

However, the investment slowdown, the modest downsizing and the common talk in Dalian about the strain of China's no-devaluation policy, are evidence of how the region's financial troubles have seeped into a Chinese city well-integrated into the Asian economy.

"The south-east Asian financial crisis has had a tendency gradually to cover one adjacent country after another," says Mr Jin.

"In the latter half of last year, the impact on south-east Asia was obvious, but at that time we were not affected at all. In the first half of this year its impact on us has become quite clear."

Philippine investors fear 'crony capitalism'

By Justin Marozzi in Manila

Something seemed wrong when Eduardo "Danding" Cojuangco rolled up last week in a black Mercedes to reclaim his position as chairman of San Miguel, the Philippines' flagship company, after 12 years in the political wilderness.

When it was announced this week that the government was in talks to settle a 25.6bn pesos ($609m) tax evasion suit with Lucio Tan, the Chinese-Filipino tycoon who like Mr Cojuangco was another close business associate of the late president Ferdinand Marcos, there was a sense that something was very wrong indeed.

Twelve years after his overthrow, the prospect of a return to the crony capitalism of Marcos under newly elected President Joseph Estrada is rattling the business community and provoking protest.

"If companies are handed back to the people who may have acquired them under suspect arrangements, what signal does that give?" said Guillermo Luz, head of the influential Makati Business Club. "It's a dangerous precedent."

Stockbrokers echo the anxiety. "There is considerable concern among the international investment community regarding the developments within the first few days of Mr Estrada's term," said Alex Connor, head of research at brokers Indosuez W.I. Carr.

Mr Tan and Mr Cojuangco were key financial backers of Mr Estrada's bid to become president.

Mr Cojuangco, who has claimed a 48 per cent stake in San Miguel since it was sequestered from him by the Corazon Aquino government in 1986, is head of Mr Estrada's political party. Many analysts believe Mr Cojuangco's renaissance, and the prospect of a similar return to favour of Mr Tan, is a example of the close alliances between business and politics that typified the Marcos era.

"Estrada is politically indebted to these two guys, which is a source of concern," said Alex Magno, professor of politics at the University of the Philippines. "The business community will have to be constantly outspoken on this issue."

Mr Tan, whose empire of unlisted companies include Philippine Airlines, Asia Brewery and Fortune Tobacco, almost destroyed the previous government's tax reform single-handedly. He might be freed from the tax evasion charge if he agreed to pay the government at least 15bn pesos, Serafin Cuevas justice secretary, said on Wednesday.

A day earlier Fidel Ramos, who stood down as president on June 30, warned the return of the "Marcos cronies" would frighten off investors.

"In a level playing ground, friends of the administration would not be given priority or special favours," he said. That comment stung Mr Estrada's officials, who promptly accused the Ramos administration of coddling certain businessmen and providing behest loans.

Any comparison between Mr Marcos and Mr Estrada must take into account important differences, say analysts.

First, Mr Marcos was a believer in protectionism and, second, he was a distributor of government capital. In a newly deregulated environment, this argument runs, the sort of crony capitalism that devastated the Philippines is no longer possible.

The Asian crisis, moreover, has left Mr Estrada facing a 70bn pesos budget deficit this year.

NEWS DIGEST

JAPANESE ECONOMY

Current account surplus expands for 14th month

Japan's politically contentious current account surplus expanded for the 14th consecutive month in May. The 62 per cent year-on-year increase, in line with expectations, reflected a sharp drop in imports caused by lacklustre domestic demand and falling oil prices. The ministry of finance warned the surplus was likely to continue to increase because of the yen's weakness against the dollar and the declining value of oil imports.

The surplus reached Y1,409bn ($10bn). The merchandise trade surplus jumped 51 per cent to Y1,409bn year on year. Exports fell 1.9 per cent to Y3,909bn, hit by the Asian economic crisis, while imports collapsed 18 per cent to Y2,499bn. The deficit in services fell 17 per cent to Y474bn, mainly because of a fall in overseas tourism. As for the capital and financial account, the deficit doubled year on year to Y1,730bn. This indicates large outflows of investments from Japan. Domestic investors bought about Y1,120bn of foreign investments, mainly bonds. Analysts said it was unclear whether this was due to the start of the financial year or the so-called big bang reforms which have made it easier for Japanese to invest overseas.

Further evidence for the lacklustre state of the domestic economy was provided by money supply data for June published yesterday. These showed broad liquidity up 3.2 per cent. Poor consumer demand has fed through to high levels of inventories, falling industrial output, and lower investment. The Japan Machine Tool Builders' Association said orders in June fell 8.1 per cent year on year. Domestic demand had fallen 30 per cent to just Y41bn, while overseas demand had jumped 26 per cent to Y49bn. **Paul Abrahams, Tokyo**

INDONESIAN BUDGET

Subsidy increase announced

Indonesia has announced a revised budget with a large increase in subsidies to help people hit by the collapse of the economy. Nearly half the budgeted income will come from the International Monetary Fund and other international lenders.

The Fund announced on Wednesday it was ready to resume payments again from a $43bn international rescue package after a two-month freeze provoked by the fall of former president Suharto. The Fund said that it, the World Bank, the Asian Development Bank, Australia and China would lend another $6bn to help fund the budget deficit. The draft budget for the year to March 1999, details of which were announced yesterday and approved by the Fund last month, supersedes two earlier drafts which were undermined by the steady weakening of the economy.

The new budget assumes that the rupiah, now trading at around 13,300 to the dollar, will average an exchange rate of 10,600 over the year.

The main theme of the budget is a big increase in real terms for subsidies on fuel and other goods. Subsidies will total Rp61,550bn ($4.6bn), 400 per cent more in rupiah terms than in the January budget. **Diarmid O'Sullivan, Jakarta**

BURMESE OPPOSITION

Military detains 79 MPs

Burma's ruling military junta has detained 79 elected opposition representatives for defying new government restrictions, opposition party officials said yesterday.

The opposition National League for Democracy (NLD) had filed a petition with the Burmese supreme court seeking to lift new restrictions requiring MPs to report twice a day to authorities in their respective townships. The supreme court dismissed the petition and NLD members who had defied the new rules had been either arrested or detained, Tin Oo, the NLD's vice-president, said. Officials at the ruling State Peace and Development Council (SPDC) were not available for comment on the NLD statement.

The SPDC on July 5 said it had stepped up surveillance of NLD MPs elected in the May 1990 election. The NLD swept the election but the result was not recognised by the military.

The SPDC had said the curbs were aimed at preventing opposition MPs from disrupting a planned re-opening of institutions of higher learning, which were closed in December 1996 after student unrest. **Reuters, Bangkok**

Cambodia poll expected to be closely fought

By Ted Bardacke in Bangkok

Despite campaign conditions overwhelmingly favourable towards Cambodian strongman Hun Sen, the country's national election is shaping up to be a hotly contested race, poll results released this week show.

The poll, by an organisation funded by expatriate Cambodians living in France, said that on a national basis the opposition Sam Rainsy party led as it went into the last 10 days of campaigning, with 14.3 per cent of voters declaring they would vote for the party.

Mr Hun Sen's Cambodian People's party (CPP) was second with 12.5 per cent, while the royalist Funcinpec party of ousted prime minster Prince Norodom Ranariddh was third with 7.8 per cent.

The overwhelming majority of those polled, 63.8 per cent, declined to answer the poll. Analysts say that while some of those may be truly undecided voters, many are potential opposition supporters who are too cowed by the official climate of fear and intimidation to answer the poll.

Both Mr Rainsy and Prince Ranariddh have stated they believe the election process is so biased towards Mr Hun Sen that his victory is virtually assured. Unfair access to media, intimidation, handouts to voters, excess registration of voters in areas known to favour Mr Hun Sen, a National Election Commission dominated by CPP supporters and a failure to investigate almost 100 extra-judicial killings during the past year are all cited as hinderances to a free and fair poll.

A UN-co-ordinated Joint International Observation Group is expected to issue an assessment of the fairness of the election after the vote takes place. On Tuesday the National Democratic Institute for International Affairs and the International Republican Institute, which will issue separate verdicts on the election for the US, said the process leading up to the polls was "fundamentally flawed."

Many were too cowed by the climate of fear and intimidation to answer the poll

But, still, the groups recognised that the outcome of the election "is not a foregone conclusion". Local CPP officials say they are under increasing pressure to deliver rural votes for Mr Hun Sen.

A three-way split in the voting results could lead to similar problems faced after UN-organised polls in 1993, when Funcinpec narrowly defeated the CPP but was forced into an uncomfortable power sharing agreement after Mr Hun Sen threatened civil war.

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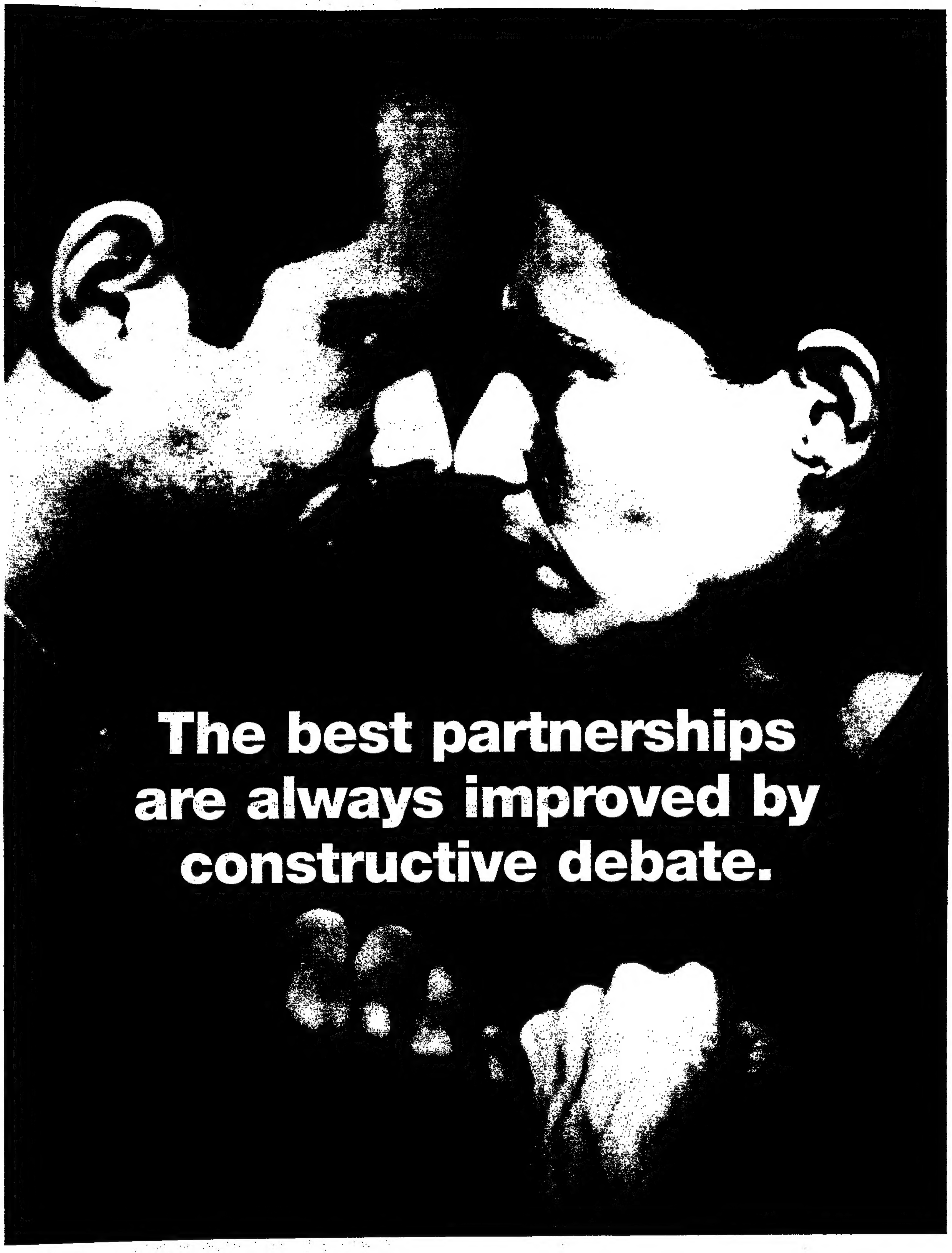


World Bank in internal corruption probe

By Stephen Fidler in Washington

The World Bank has appointed a team of outside auditors to help it investigate allegations of corruption within its own ranks, and has initiated a civil lawsuit in the US to recover money allegedly taken in bribes by a former employee.

A special team from PriceWaterhouseCoopers has been retained and two outside specialists – a former federal prosecutor and a former postal inspector – have been engaged to investigate the claims.

A hotline will be set up in the next few weeks to allow staff to call in concerns about possible irregularities and three Washington-based bank officials have been suspended.

"The trigger for these investigations was my decision, as president, that if the bank were going to campaign against corruption in our borrowing countries, we had to be absolutely certain that we held ourselves to the highest standards on the inside," James Wolfensohn, the bank's president, said in a statement.

Investigations have so far covered four areas, according to World Bank officials. In one, the Bank has filed a civil suit to recover money allegedly taken in bribes related to a water utility contract in Algeria.

The former employee, Carlos Rodriguez, has denied the claim.

The others concern alleged misuse of bank funds in Russia and Indonesia – and of a trust fund established by Japan to help pay administrative and consulting expenses.

The bank has been investigating previously publicised claims of misuse of loans to Russia – including a loan for the coal industry and one aimed at recompensing investors cheated by pyramid investment schemes. In Indonesia, the investigations include claims about the misuse of a loan intended to help the rural poor.

"Some of the cases being investigated may result in legal action being taken by the Bank, in addition to appropriate legal measures," Mr Wolfensohn said.

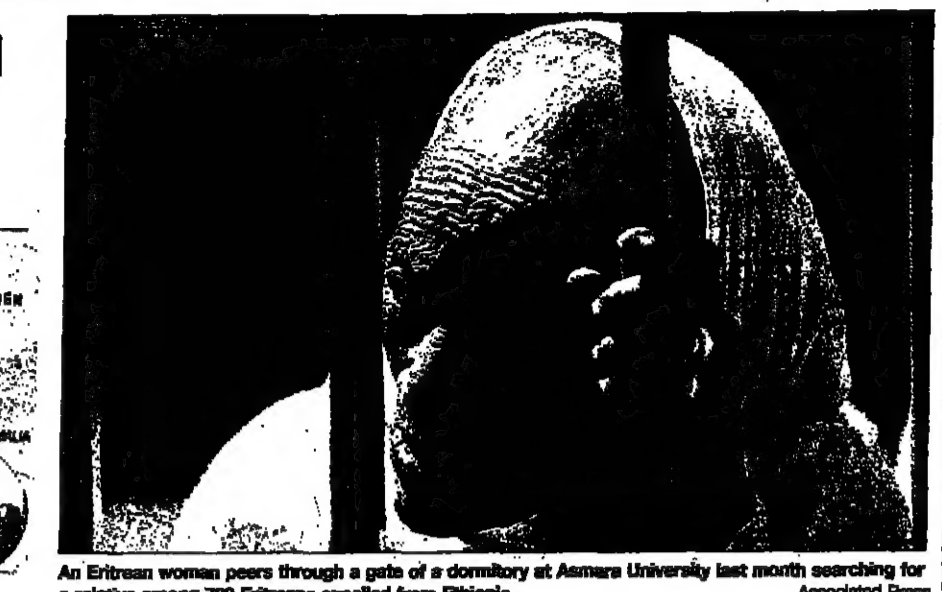
"While I have no reason to believe there is a widespread problem in the Bank, even one case is one too many."

A new internal oversight committee was created in May, made up from members of the bank's internal audit department, office of professional ethics and legal department, to look into such claims.

It is headed by a lawyer within the Bank, Daoud Khairallah.

Eritrea conflict puts Ethiopian prime minister in firing line

Ethiopian hardliners are itching to tear up colonial map, reports **Michela Wrong**


An Eritrean woman peers through a gate of a dormitory at Asmara University last month searching for a relative among 720 Eritreans expelled from Ethiopia Associated Press

The Ethiopian official's denial came with a polite smile. No, there was no truth to the rumour that Meles Zenawi is under house arrest, he told a press briefing.

But the very fact that the question could be voiced of a man who until two months ago seemed one of Africa's most unassailable leaders was indicative of a sea-change.

If the war between Ethiopia and Eritrea that exploded in May sent tremors through the international community, threatening a swathe of instability from the Great Lakes to the Horn of Africa, it also threatens repercussions closer to home.

With its 82 ethnic groups, bevy of restless separatist movements and a Tigrayan leadership contemptuously dismissed by the former ruling élite as an "occupying force", Ethiopia looks more vulnerable to an internal shake-up than tiny Eritrea.

So far, say Addis Ababa residents, the instinct has been to rally around the flag. As the military build-up on the frontier continues, students have turned fervent nationalists and opposition parties have cancelled rallies out of solidarity with the government. The expulsion of thousands of Eritreans who had lived in Ethiopia for decades has scarcely triggered a murmur of protest.

Encouraging the trend has been some crude, but effective, propaganda. At briefings a government spokeswoman blasts the senseless actions of a crazed dictator – Eritrea's President Isiais Afewerki. Newspapers rail against the "fascists" across the border and television screens images of thousands of militiamen heading for the front.

In the long term, however, the propaganda machine's very effectiveness could pose a problem for the Ethiopian People's Revolutionary Democratic Front (EPRDF) government, exposing fissures in what had seemed an impressively monolithic structure.

Until now the public relations war has largely gone Ethiopia's way, with Addis convincing foreign allies it is the victim of unprovoked aggression. But if that sympathy is to continue, Eritrea's claim that Ethiopia is secretly bent on redrawing colonial frontiers must appear absurd.

And as the war euphoria mounts, many Ethiopians – especially an Amhara bourgeoisie which never forgave the Tigray People's Liberation Front (TPLF) for granting Eritrea independence and severing Addis from the sea – nurse precisely that ambition.

"Hidden agenda? There's nothing hidden about it," says an academic. "A lot of Ethiopians think this a godsent opportunity to prosecute the war to its logical conclusion, seize a Red Sea port, and have nothing more to do with Eritrea.

"If it weren't for Meles and this leadership, fighting between the TPLF and EPLF [Eritrean People's Liberation Front] would have broken out as soon as Addis fell. We should have done it in 1991, instead we are doing it now."

Viewing realpolitik in terms more reminiscent of the 19th than 20th century, these Ethiopians are particularly suspicious of Mr Meles. Half-Eritrean, he until recently enjoyed what many regarded as an early warm friendship with Mr Isiais.

The TPLF leadership and army are also both full of hardliners itching for the chance to tear up colonial maps and march to the sea.

So Mr Meles is in a quandary. Compromise, and it will be regarded as a signal the Tigrayan minority at the EPRDF's heart has sold out Ethiopia. Act tough, and one of the world's poorest countries faces another costly war.

"Meles is treading a very thin line between keeping his hardliner Tigrayans at bay and being an Ethiopian nationalist," says a diplomat. "If he succeeds he'll emerge the stronger. But there's a danger he'll be used by the TPLF as a scapegoat if things go wrong."

Hence the rumours of house arrest. Hence also the speculation about a possible successor, with the name of Seyoum Mesfin, the uncompromising foreign minister, top of the list.

In neighbouring Eritrea officials predict more than just a cabinet reshuffle, saying the war, in destroying a bond that helped a northern minority stay in power, heralds the TPLF's demise.

"This is the beginning of the end of the TPLF," says a minister in Asmara. "The country has proved too amorphous, too big for them. They don't have the support of the people and now they've turned against the EPLF, their only friends."

They point to the federal constitution introduced in 1994, which split Ethiopia into nine ethnically based provinces. The government's adoption of federalism – paradoxical in the light of its recent reaction to anything smacking of territorial annexation – showed how aware the EPRDF was of the risk of fragmentation.

By dangling the right to secede in front of the provinces, Addis hoped to defuse regional tensions and keep Ethiopia together. But critics say the scheme proved a sham, as locally stationed TPLF cadres maintaining rigid central control.

With separatist aspirations still simmering in Oromiya, Afar and Somali regions, a mass army redeployment to the Eritrean border carries attendant risks. Already there are rumours of separatist representatives being spotted in Asmara, presumably courting Eritrean support.

In Addis, such problems look far off. "In the long term there's the potential that certain areas will take advantage of the army's preoccupation," says a political analyst. "But we're not there yet."

Israeli PM in treason trial row

By Judy Dempsey in Jerusalem

An Israeli businessman was yesterday jailed for 16 years for selling poison gas to Iran amid allegations that Benjamin Netanyahu, the prime minister, meddled in the trial.

Nahum Manbar was convicted for treason days after Nissim Zvili, a member of the opposition Labour party and Knesset deputy, alleged that Mr Netanyahu had improperly contacted Amnon Strashnov, the chief judge in the trial.

Mr Netanyahu strenously denied any such contacts.

Mr Strashnov headed the three-judge court which last month convicted Mr Manbar of aiding an enemy state, supplying Iran with material for mustard and nerve gas and equipment for making chemical warheads.

After the conviction Mr Netanyahu urged the Tel Aviv District Court to impose a harsh sentence on Mr Manbar. Mr Strashnov said the prime minister's remarks were "improper".

In a petition filed to the court last week, Amnon Zichroni, lawyer to Mr Manbar, tried to take Mr Strashnov off the case, alleging he had been influenced by Mr Netanyahu and had "secret information" allegedly obtained from Pninat Yanai, who had then been on Mr Manbar's defence team.

The petition said that Ms Yanai, a former law clerk to Mr Strashnov, had "a personal, close and intensive relationship" with the judge. It also alleged Ms Yanai knew Mr Netanyahu had spoken several times with the judge during the trial. In a letter to the court Ms Yanai denied having an erotic relationship with the judge.

"The court did the right thing," Mr Netanyahu said after yesterday's sentence was handed down. "This was a very serious challenge to the national security."

The defence will appeal.

Moment of truth for war crimes

By James Blitz in Rome

Delegates from 101 nations were last night awaiting publication of a draft treaty to create a new international criminal court to try war crimes.

The United Nations conference in Rome that aims to set up the court closes at midnight tonight, by which time delegates aim to have voted on a draft treaty.

The US, France, Russia and China yesterday remained adamant that the new court should not have independent powers to try war crimes or crimes against humanity, insisting that individual states should be able to opt out of the treaty if they wish.

The proposal has angered many other nations who want a powerful supra-national body and claim an opt-out clause will turn the court into an "empty shell".

There was confusion at the conference yesterday over the position of the UK delegation. The UK government has a strong commitment to an "ethical foreign policy" and has hitherto been a staunch supporter of a strong and independent court.

Human rights organisations claimed the British delegation had caved in under US pressure at a meeting in Rome and was now insisting that the opt-out proposal be included in the final draft.

"If it is true that this is the case, then it could tip the balance and seriously call into question whether the UK is carrying out something that can be called an ethical foreign policy," said Richard Dicker, a lawyer with US-based Human Rights Watch.

The Foreign Office in London said it continued to be opposed to any opt-out from the treaty, although a spokeswoman for the UK delegation in Rome said she could not comment on bilateral discussions.

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Moment of truth for war crimes

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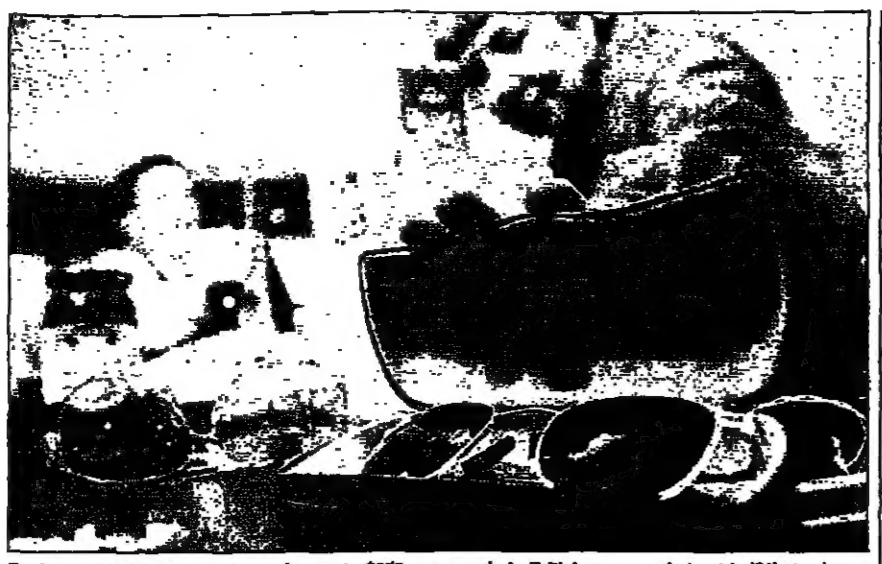
DESIGNER GOODS

Grey market ruling delights brand owners



Designer sunglasses usually costing up to $250 are on sale in British supermarkets at half that price. The verdict threatens a multi-million pound UK market which has brought prized brands to the masses

By Peggy Hollinger and Neil Buckley

It all started with a few pairs of sunglasses changing hands in the Balkan winter of 1995.

Silhouette, an upmarket Austrian sunglasses manufacturer, sold 21,600 pairs of out of date stock to a Bulgarian company on the promise that they would be distributed either in Bulgaria or the former Soviet Union.

Within months, however, the sunglasses found their way back to Austria to be sold by the discount chain Hartlauer at cut prices. Silhouette, arguing the right to choose its distributor, took Hartlauer to court. Eventually, the case was referred to the European Court of Justice, which yesterday ruled in Silhouette's favour.

But the implications of the ruling extend far beyond the niche sunglasses sector.

Brand owners in markets as diverse as computers, motorcycles, cars, clothing and perfumes were yesterday busy reviewing their legal strategies in the hope they would be able to clamp down the growing nuisance of the so-called grey market.

One motorcycle trader said the influx of cheap motorbikes, originally destined for markets outside the UK, was responsible for undermining the second hand market. "You can buy a new £7,000 motorbike for five grand (thousand)," he said.

Levi Strauss UK yesterday described the ruling as "most helpful". The company, which denied it had pricing policy to which its authorised retailers had to subscribe, said it was studying its position in light of the ruling. "The decision seems to be very clear," Levis said. "Parallel goods from the US are now unlawful when traded by dealers without our consent."

Although there are no estimates for the size of this unofficial market for consumer goods, it is clear that it has been growing rapidly in recent months. "Not a day goes by when I am not approached with an offer of some designer labels," said one large UK retailer.

In part, the market has been made possible by the widely differing prices charged by brand owners in different markets. The Economist Intelligence Unit recently estimated that prices in London are on average 12 per cent higher than in New York.

Food retailers – in the UK in particular – have increasingly sought to use such price differences to gain promotional advantages in a competitive and mature food market.

Christine Cross, director of Tesco's global non-food sourcing, said the judgment merely bolstered the practice by brand owners of restricting supply to ensure inflated prices for their products. "It is not just that supermarkets will have a hard time sourcing the product," she said. "The ruling means that they are setting up a European price cartel. That is what we are lobbying against."

However, brand owners argue that they have a right to choose their distributors.

Adidas, the sportswear brand, said there were advantages for consumers in a restricted distribution network. "We make an important commitment to our customers that our products will be consistently of high quality," it said.

Alongside its impact on retailers and consumers, the ruling is a blow to the EU's policy of encouraging competition within the European single market, and trying to cut consumer prices to the level of those in the US.

The European Commission tried to put a brave face on the decision, insisting that allowing trademark owners to keep control of their product distribution offered some advantages to consumers. These included guaranteed product quality and after-sales service wherever consumers bought goods in the EU.

The ruling clarified a principle enshrined in EU law by a 1989 directive harmonising trademark rules.

This said that once trademark owners approved the sale of their goods in one EU country, they could not use their trademark rights to block free circulation of the goods within the EU – a principle known in legal terms as "exhaustion of trademark rights". But the law implied that exhaustion of trademark rights did not extend to goods imported from outside the EU.

Editorial comment, Page 15

Hopes rise on IT tariffs

By Frances Williams in Geneva

Trade negotiators yesterday said they were optimistic over the chances of reaching agreement today to eliminate tariffs on a further list of information technology products worth up to $50bn in trade annually.

The 44 members of the World Trade Organisation's information technology agreement (ITA) resumed talks yesterday after failing to meet an earlier deadline of June 30 for extending the product coverage of the accord.

Martin Harvey, the New Zealand official chairing the talks, said differences had narrowed and a final agreement was within reach. But countries are still at odds over the inclusion of consumer electronic products, such as video-players and televisions, which Malaysia, Thailand and others have pressed for, but India and Romania oppose.

The 300-odd products under discussion include less controversial items such as printed circuit boards, flat panel displays, certain telecoms equipment and components for information technology goods not included in the first ITA last year. Talks were continuing last night to try to gain consensus for including each product on the list. Products lacking consensus will be dropped.

Developing countries are also demanding more time to phase in zero tariffs, beyond the proposed four-year period to January 2002. The first ITA, which covered goods worth some $500bn in trade annually, will eliminate tariffs by January 2000 but some countries were allowed extensions for some products.

● The WTO's general council has agreed to set up a working party to draft entry terms for Samoa. This brings to 32 the countries seeking WTO membership, among them China, Russia, Saudi Arabia and Vietnam.

NEWS DIGEST

HELMS-BURTON

Clinton extends waiver on anti-Cuba sanctions law

US President Bill Clinton yesterday extended his waiver of anti-Cuba sanctions under the Helms-Burton Act for another six months, heading off conflict with US trading partners over American extra-territorial actions. Since Helms-Burton went into effect in 1996, Mr Clinton has waived the provision which requires him to penalise foreign companies investing in property once owned by Americans but confiscated by the Castro regime. In an agreement last month with the EU, he promised to continue waiving the provision in exchange for an agreement on investment in expropriated properties.
Nancy Dunne, Washington

UNION CHALLENGE TO NAFTA

Barshefsky dismisses lawsuit

Charlene Barshefsky, the US trade representative, said yesterday she did not expect courts to overturn the North American Free Trade Agreement as unconstitutional. The United Steelworkers of America filed a suit on Monday in a US district court arguing that Nafta was a treaty – not a trade agreement – and therefore required a two-thirds majority in the Senate. "Our initial impression of this case is that it's not sustainable," she said. **Stephen Fidler, Washington**

WHISKY DRINKS

Court scotches diluted spirit

The European court of justice yesterday ruled that whisky drinks with an alcoholic content below 40 per cent could not use the name whisky. The decision follows a complaint by the Scotch Whisky Association, representing Scottish distillers, against Gold River, a French drink containing a mixture of whiskies from Scotland, Canada and the US, and diluted with water. Its alcoholic content is roughly 30 per cent.

The association took legal action when it found the product on sale in France, alongside Scotch whisky. The label on Gold River bottles described the product as "Blended Whisky Spirit".

The European court of justice ruled that Gold River was a "spirit" under EU law, but not a "whisky," which must have a minimum alcoholic strength of 40 per cent. However, the court said the word "whisky" could appear on the list of ingredients, although its use as a "descriptive name is not possible".

Scotch whisky is an important industry in the UK, with exports of £2.39bn in 1997. **Samer Iskandar, Brussels**

VIETNAM POWER

Sweden offers soft loans

The Swedish government has agreed to provide SKr122m ($15m) to support projects aimed at improving electricity distribution networks in central Vietnam. The deal provides SKr110m of soft loans for investment in distribution networks and SKr12m for training and consultancy services. It takes total support provided by Sweden for Vietnamese power projects to SKr259m. **Andrew Taylor, Utilities Correspondent**

Mercosur pact would cost EU $15bn

By Michael Smith in Brussels

The European Union would have to pay out up to Ecu14.3bn ($15.6bn) a year if it were to compensate farmers for the effects of agreeing a free trade deal with Mercosur, the Latin American trading group, according to a confidential report ordered by the European Commission.

Costs could rise a further 25 per cent after the planned enlargement of the Union to take in five central European countries and Cyprus.

The report, by the Commission's budget directorate, is a further blow to the hopes of Manuel Marin, Latin American relations commissioner, for opening negotiations on a free trade agreement with Mercosur countries Brazil, Argentina, Uruguay and Paraguay – plus Chile, an associate member of the Latin American group.

The French government has already warned that a Mercosur deal would present major risks for agriculture. It has called for a debate on the issue at next Monday's meeting of EU farm ministers even though Mr Marin has yet to win the support of fellow commissioners for starting negotiations.

The commissioners will consider shortly whether to support Mercosur talks. Officials believe they are still likely to do so even though the opposition of France and concerns of countries such as Germany seem certain to ensure a long delay to the start of talks.

According to the report, compensating farmers for the fall in prices resulting from a Mercosur pact would cost between Ecu5.7bn and Ecu14.3bn.

Beef farmers would need Ecu1bn, assuming prices fell 5 per cent, but the figure would rise to Ecu4.4bn if prices fell to those prevailing in Mercosur countries.

The cereals sector together with pig and poultry farmers would require Ecu500m, sugar Ecu2.8bn, fruit and vegetables Ecu900m to Ecu2.2bn, rice Ecu300m, milk and milk products up to Ecu2.1bn and sheep and goat farmers between Ecu200m and Ecu2bn.

A separate report by the Commission's agriculture directorate, also unpublished, notes that the main constraint on Mercosur farm production is lack of markets rather than land. Only 7 per cent of land is under production, compared to 30 per cent in the EU.

It identifies beef as the main problem for the EU since Mercosur prices are only about half of those in the EU.

"The present level of EU tariffs brings Argentinian beef to a price level where it is not competitive. Once tariffs are dropped all kinds of beef meat will be able to access the EU. Mercosur beef is produced at very competitive prices and production could easily be increased."

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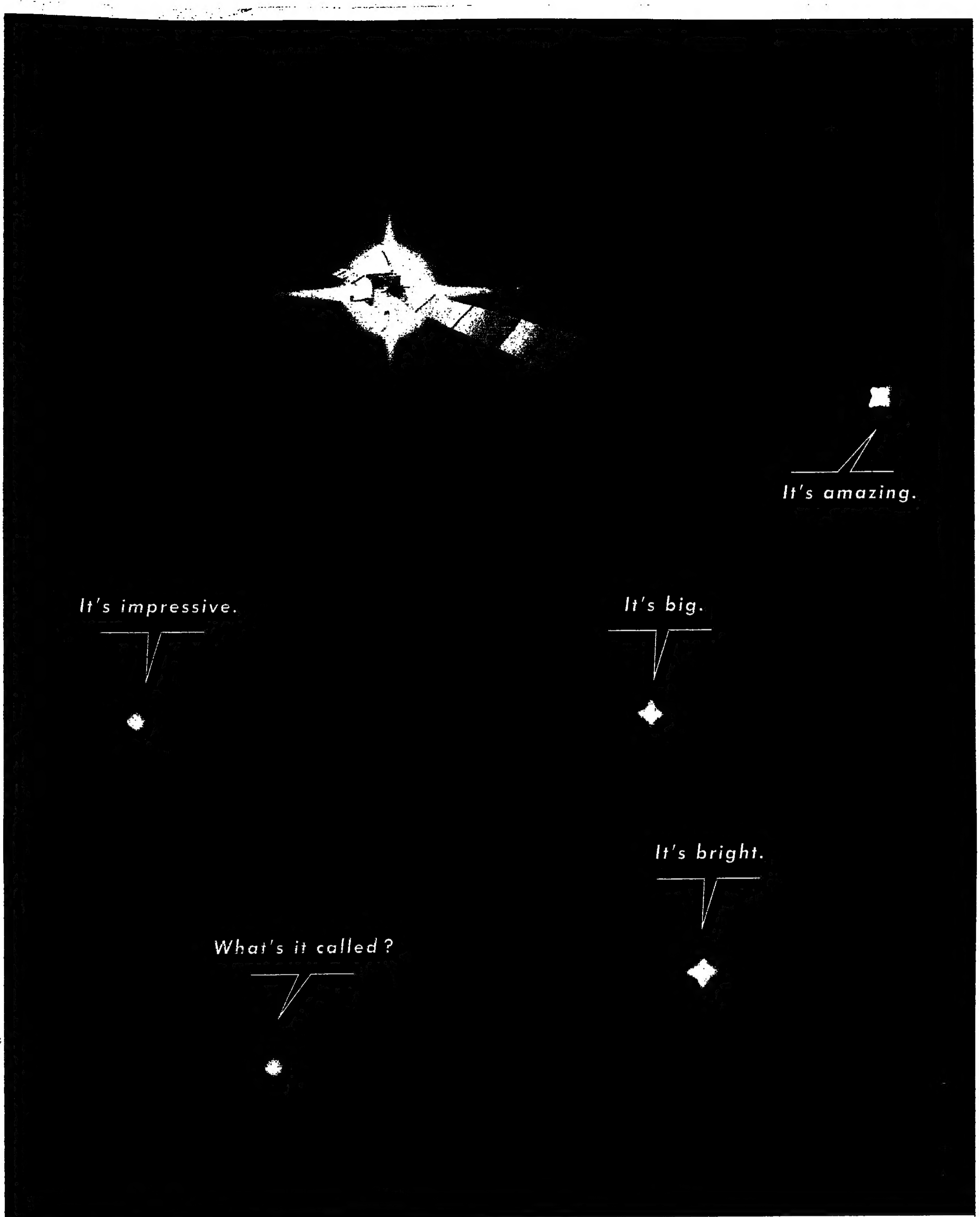


INDUSTRIAL PRODUCTION ECONOMY SLOWED DURING THE SPRING AS GM STRIKE BIT INTO FRENETIC PACE RECORDED EARLIER IN YEAR

US output suffers sharp monthly fall

By Gerard Baker in Washington

The strike at General Motors produced the sharpest monthly fall in US industrial production for five years in June, as the economy slowed substantially over the spring from the frenetic pace recorded at the start of the year. Industrial output fell by a seasonally adjusted 0.6 per cent last month, the Federal Reserve reported yesterday. But the decline was entirely accounted for by the GM strike. Excluding motor vehicles and parts, production expanded by 0.1 per cent.

The figures were consistent with most economists' expectations of a sharp slowdown in overall activity in the three months to June, but they also underlined the continuing resilience of much of the economy in the face of widening damage from the Asian financial crisis.

"What you have is a clear dichotomy within the manufacturing sector, which reflects the broader dichotomy in the economy as whole," said Richard Berner, chief economist at Mellon Bank in Pittsburgh. "Overseas demand is quite weak, but domestic demand remains brisk."

In the second quarter as a whole industrial production actually accelerated – up at an annual rate of 2.5 per cent, from 1.2 per cent in the first quarter. But that increase was the result of much larger output by utilities, as weather patterns returned to normal in the spring following from an unseasonably warm spell in the winter.

Manufacturing output, in contrast, slowed markedly – from an annual rate of 2.3 per cent in the first quarter to 1.7 per cent in the second.

Other economic indicators have pointed to a broader-based slowdown.

The main factor has been inventories; companies built up large stocks of unsold goods in the first quarter, but figures this week suggested they have been reducing those inventories rapidly in the second quarter. In addition, figures out today are expected to show another large trade deficit in May, following big gaps in the first four months of the year. A widening deficit means overall domestic output is lower.

The third factor that clearly damped growth in the second quarter was the GM strike. Most economists estimate the combined effect of the three factors was that the economy grew at an annual rate of only about 1 per cent in the April to June quarter, down from a rate of 5.4 per cent in the first three months of the year.

That seems likely to be enough of a slowdown to keep the Federal Reserve from raising interest rates in the next few month.

Menem steps up the fight for a third shot at the presidency

Foreign investors seem to favour the incumbent as the most likely guarantor of economic policy continuity. **Ken Warn** reports

Menem: campaigning hard, even though constitutionally barred from running for third consecutive term

Argentina's ministers have taken to lighting their post-barbecue cigars with lighters bearing the logo "Menem 1999", while Buenos Aires is plastered with posters extolling President Carlos Menem's achievements during his nine years in office. T-shirts, vans and neon signs have sprung up across the city bearing the same message.

Mr Menem is campaigning hard for re-election, despite the fact that he is barred under the constitution from running for a third consecutive presidential term. With the election more than a year away, his battle to secure the go-ahead to seek another term has deepened the fissures in his own ruling Peronist party, just as an International Monetary Fund team begins to arrive this week to monitor the country's economic progress.

Mr Menem and his supporters are seeking to persuade the supreme court to issue an "interpretation" of the constitution which would permit him to run for a third term.

But Eduardo Duhalde, governor of Buenos Aire province and self-styled "natural successor" to Mr Menem, has called the president's bluff. Progressively sidelined by Menem loyalists, Mr Duhalde has played the strongest, and possibly last, card in his effort to seize control of Peronism with the presidential nomination. He has called a September provincial plebiscite on whether Mr Menem should be allowed to run for a third term.

The Buenos Aires province will give a resounding "no" to Mr Menem's hopes, Mr Duhalde believes, turning the president into a lame duck and delivering the party into his hands.

In a phone-in poll this week for television stations CVN and América 2 only 17.5 per cent of those questioned outside the capital backed the re-election bid, against 82.5 per cent against. In greater Buenos Aires, the "no" vote was even stronger.

In an effort to face down Mr Duhalde, Mr Menem has called a party congress for today aimed at winning formal backing for the re-election bid. Mr Duhalde in turn has challenged the legality of the meeting, which could yet founder at the last minute. Without a compromise between the two men, the party risks coming to the brink of rupture.

Embattled in his provincial stronghold, Mr Duhalde leads Peronism's more corporatist wing. Since 1989 Mr Menem has imposed free market policies on an often reluctant party, but has recently moved to recapture control of key bases of support, for example watering down long-mooted labour reform plans to bring the unions back on side.

The incoming IMF team will find a country that has just met its first-half fiscal targets, agreed under the terms of a $2.8bn three-year extended fund facility approved earlier this year. But it will see a political landscape convulsed by the re-election controversy.

The labour reform package slowly working its way through Congress falls far short of moves to increase labour market flexibility urged by the IMF. Fiscal reforms aimed at expanding the reach of the value added tax to pay for cuts in taxes on labour are being steadily unpicked in Congress. The tax reform difficulties prompted the resignation of deputy economy minister Carlos Rodrigues on Wednesday night.

Unemployment figures due out today are expected to show only a slight fall in the 13.7 per cent jobless rate, underlining the economy's slowing capacity to generate jobs, despite continuing growth.

Foreign investors have largely ignored the re-election issue, and have, if anything, quietly favoured Mr Menem as the most likely guarantor of economic policy continuity. Privately though, some investors are starting to worry that Peronism's struggles come at a time when Argentina needs to keep up its guard against possible knock-on effects of the international market turmoil.

The deep divisions within the Peronist party should be a gift to the opposition. But the Alliance, formed last September between the centrist Radical party and left-of-centre Frepaso, is itself struggling to choose a presidential candidate. Frontrunners are Frepaso deputy Graciela Fernández Meijide and Radical leader and mayor of Buenos Aires Fernando de la Rúa.

The Alliance coalition also finds itself torn between backing Mr Duhalde's referendum call and its reluctance even to debate what it sees as an attempt to steamroller over the constitution.

"For Menem to run again, the Supreme Court would have to say that part of the constitution is unconstitutional. That would be an institutional coup," said Mrs Fernández Meijide.

Mr Menem's approval ratings are stuck below 20 per cent. But the slowing economy and international financial uncertainty could paradoxically lift his chances, according to political analyst Rosendo Fraga. Argentine voters are happiest voting for political change when the economy looks settled, he said.

Mr Menem's supporters believe everything is still to play for. And stocks of "Menem 1999" lighters are high.

NEWS DIGEST

SILICON VALLEY

Venture capital companies chase internet hopes

Silicon Valley venture capital companies are complaining of a surfeit of money as new figures from accountants PriceWaterhouseCoopers reveal a sharp leap in internet-related investment. The PWC venture capital survey, conducted quarterly, shows internet deals jumping to $459m in the first quarter of 1998, up 54 per cent from $298m in the same period last year. This compares with a total venture capital investment of $3.6bn for the quarter, up 45 per cent on a year earlier.

Mr Kirk Walden, who directed the survey for PWC, said the rate of growth in the industry as a whole was unsustainable. He said companies were now having to turn away new investment. The rise of the average size of internet-related investment jumped from $4.1m to $5.1m. Silicon Valley in California received the largest part of the internet-related investment with 31 deals worth $158m in the first three months of the year. A recent meeting of leading members of the Valley venture capital industry at the Churchill Club, a networking and discussion group, produced a clear consensus on one issue: the industry had too much money. **Roger Taylor, San Francisco**

MONICA LEWINSKY INVESTIGATION

Court agrees to testimony

The US Court of Appeals yesterday reversed an earlier decision to block the head of President Bill Clinton's security detail from testifying before the grand jury in the Monica Lewinsky investigation.

In a dramatic showdown between Kenneth Starr, the independent counsel, and the White House, the court agreed to allow the testimony of Special Agent Larry Cockell to go ahead.

The court said its earlier decision to block testimony had been made to "to give the court sufficient opportunity to consider the merits" of the Clinton administration appeal but added the action "should not be construed in any way as ruling on the merits" of the Justice Department's case.

The ruling was seen as a big setback for the Justice Department in the scandal after it made a last-minute legal onslaught, even prepared to go to the Supreme Court, to stop Special Agent Larry Cockell from testifying. **AP, Washington**

VENEZUELA BUDGET DEFICIT

$2.5bn package planned

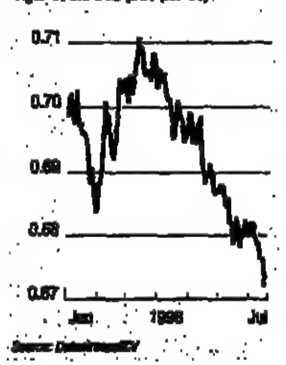
The Venezuelan government will next week present parliament with a package designed to raise $2.5bn, including a tax reform and new debt, in an attempt to reduce a gaping budget deficit and avoid a devaluation of the currency, the bolivar. "There will be no devaluation or foreign exchange controls," said Teodoro Petkoff, the planning minister. Under its proposal the government seeks to raise as much as $2.1bn in debt to meet this year's domestic and foreign debt obligations. The Inter-American Development Bank (IADB) has already approved a two-tranche $400m loan. The first tranche is conditional on congressional approval of an oil revenue stabilisation fund as well as reform laws for the power sector and customs.

The government is seeking an additional $400m loan from the World Bank and would raise as much as $1.5bn on international capital markets. **Raymond Colitt, Caracas**

Fresh doubts grow over Canada dollar

By Scott Morrison in Toronto

Canadian dollar
Against the US$ (US$ per C$)



Source: Datastream/ICV

The Canadian dollar was hovering near its all-time low yesterday as the central bank continued to grapple with the dilemma of whether to defend the currency with an interest rate increase just as the economy is showing signs of slowing down.

Some economists and traders said the dollar's continuing slide – almost 3 per cent in since the beginning of June – and rising Canadian bond yields have left the bank with no option other than to increase its key bank rate.

A new bout of speculative trading has been pushing the currency to consecutive closing lows, reaching 67.15 US cents on Wednesday. The dollar was trading at 67.20 US cents at midday yesterday.

Traders had expected the currency to continue its slide yesterday, but speculators took less aggressive positions because they believe market conditions suggest an interest rate increase is inevitable. "The bank's feet are to the fire and its only a matter of timing," said one fixed income analyst.

Gordon Thiessen, the Bank of Canada's governor, has been extremely reluctant to raise rates to defend the dollar given current economic conditions. Last Friday, Statistics Canada reported that the number of jobs declined in June for the second consecutive month. Earlier this week the federal agency reported that shipments of manufactured goods unexpectedly declined 1 per cent in May.

Mr Thiessen's dilemma was heightened yesterday when the government reported consumer prices rose 0.1 per cent in June, lowering year-on-year inflation to 1 per cent, the bottom range of the central bank's target band of 1-3 per cent.

Economists had expected growth in gross domestic product to slow in the second half, but the latest data suggest the slowdown started in the second quarter. Some observers said the most recent reports indicate the central bank has no reason to raise rates, with some arguing a case could be made for lowering them. The data has prompted currency speculators to test Mr Thiessen's resolve.

Mr Thiessen said he would respond quickly should the currency succumb to a crisis of confidence, as was the case in January when the central bank raised its overnight rate by 50 basis points to 5 per cent. The question is at what point will the Bank of Canada determine the currency is suffering from a fundamental loss of confidence.

Monetary conditions have eased as the dollar slides, while the negative spread between Canadian and US long bonds had narrowed to 15 basis points yesterday, indicating investors are no longer willing to accept lower returns on Canadian bonds. Traders said currency option spreads have become greater in recent days indicating the market expects the currency slide to continue.

Avery Shenfeld, senior economist at CIBC Wood Gundy brokerage, said it was worrying that the currency has continued to weaken despite a slight improvement in commodities prices in recent days. That suggests the begining of a speculative run on the dollar, he said.

"I think we are on the cusp of the development of speculative trading on the Canadian dollar. Confidence has eroded quickly," said a trader in Toronto.

IMF closer to securing US capital boost

Stephen Fidler in Washington

Legislation to provide the US contribution towards a significant capital increase for the International Monetary Fund has made headway this week. But the passage of the full $18bn boost requested by the Clinton administration is by no means a foregone conclusion, according to staffers in Congress. The request for the full $18bn has passed the Senate, but has been blocked in the House.

On Wednesday, an important House subcommittee voted to provide $3.4bn of the request for the IMF's so-called New Arrangement to Borrow, a new credit line in readiness for emergencies. Furthermore, the prospect was raised that the rest of the money might be approved in a vote on the House floor.

One of the harshest opponents of the increase in funding, Richard Armey, the leader of the majority Republicans in the House, said this week he believed the votes were available to pass the increase.

"The majority of the House would like to do more money and less reform," he said, referring to efforts that he backs to introduce reform and increase the transparency of the Fund. "In the end I suppose they pretty much get as much money as they are looking for with as little accountability as they desire," he said.

The opponents of the IMF increase have depicted the agency as a cause of moral hazard – in the words of Rep Armey as "a destabilising institution that aggravates the very problems it is trying to solve". He said that in Russia " the expectation of an IMF bailout destroyed the incentive to carry out needed reforms."

Democratic critics of the Republican leadership have said delay in introducing legislation has been guided by considerations of how this would play with the voters ahead of the November mid-term elections.

Two new factors had entered their calculations. First, the party's backers in business have been growing increasingly concerned about the effects of the Asian financial crisis, as the US economy has begun to slow down in the second quarter. Second US farmers have been suffering from the collapse in commodity prices, brought about partly by Asia's economic collapse, and this was becoming of increasing concern to Republican legislators in rural states. Thus, the chances had increased the increase would be passed.

The IMF and the governments of Group of Seven countries were forced by the IMF's lack of available resources this week to draw on the so-called General Arrangement to Borrow to provide the bulk of a $22.6bn emergency financial package from Russia.

The full $18bn has passed in the Senate but been blocked in the House

Opponents still say there is a fair chance the increase may be blocked or at least encumbered by provisions – including perhaps one on abortion – that would force the president to exercise his veto.

This would exploit the split in the Republican Party over the issue. Brendan Smith, aide to independent Vermont congressman Bernie Sanders, said the split by the sub-committee of the $3.4bn from the rest of the capital boost allows opponents to focus on the $14.5bn which represents "mission creep" by the Fund.

The debate was expected to continue as Rep Sanders brought to the House floor an amendment that would stop the administration from using its Exchange Stabilisation Fund to make loans to foreign governments of more than $250m.

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RETAIL INVESTMENT MORGAN STANLEY DEAN WITTER AMBITIONS TO 'SHAKE UP' MARKET DISMISSED BY TRADITIONAL COMPETITORS

Rivals scorn US 'no load' mutual fund plan

By James Mackintosh in London

Plans by Morgan Stanley Dean Witter, the US investment bank, to enter the UK retail investment market were dismissed by its more traditional British competitors yesterday.

The bank believes it can "shake up" the UK market with the US "no load" mutual fund model, where no entry or exit charges are levied and investments are sold direct, rather than through advisers.

This compares with a standard 5 per cent initial charge in the UK, which is used to pay a commission to financial advisers for selling funds. But it has a higher than average annual fee of 1.6 per cent.

"We think the time is right to think about a new way of investing," said Richard Brereton, executive director of Morgan Stanley Asset Management. He added that 98 per cent of households have no unit trust investments. "There is still tremendous potential for growth in the UK funds market."

Rachel Medill, head of group communications at M&G, the second-largest unit trust manager, said: "I don't think [Morgan Stanley] is going to create a huge increase in sales. It is not going to make waves in the industry."

The Morgan Stanley range of three funds, each of which will start with £5m of the bank's own money, is structured as an open-ended investment company (oeic), the successor to unit trusts. Because oeics have one price used for buying and selling, they are not subject to the spread between buying and selling prices, which adds up to 1 percentage point to the cost of most unit trusts.

Fidelity, a US fund manager which runs its UK funds through an oeic, said the no-load approach failed to understand the British market. "You can come over from America and say, what this country needs is no-load funds. But hard experience shows that is not the way it works here – [financial advisers] are very important."

Legal & General, the only large UK manager with no initial charges across the board for lump sum investments, said it "could not understand" why Morgan Stanley thought it was special.

Morgan Stanley begins extensive advertising at the weekend. "We are going to be in all the papers every week for as long as it takes," it said.

Mr Brereton said sales would initially be direct by telephone and post.

Actors' lobby wins reprieve on benefits

By George Parker, Political Correspondent

Harriet Harman, chief social security minister, has been forced to climb down over plans to cut welfare payments to actors and musicians "resting" between jobs.

The move came after heavy lobbying from celebrities who support the governing Labour party.

Glenda Jackson, the former actress who is now a transport minister, was among those who argued the cuts would be damaging to one of the government's beloved "creative industries".

The government now faces a bill of up to £200m ($330m) in rebates for theatre owners and actors who wrongly paid National Insurance – a levy to fund state benefits – over the past six years.

Ms Harman launched her plan to take on the acting community last November, arguing that they should no longer receive Job Seekers Allowance – an unemployment benefit – during periods without work.

In a leaked letter written last November and obtained by the Financial Times, Ms Harman warned Tony Blair, the prime minister, and Gordon Brown, the chancellor of the exchequer, that the acting community would be "disappointed" by her decision.

"The whole thrust of our social security policy is to encourage individuals to take personal responsibility and to support themselves through work, rather than looking to the benefits system for support," she added.

Her plans enraged actors and musicians, who enjoy a special tax status because of the unpredictable nature of their work.

Chris Smith, chief minister for culture, and Ms Jackson argued vociferously against the proposals, which they claimed would deter people from taking up jobs in the arts. Yesterday it emerged that Ms Harman had lost her battle in the cabinet and she would be passing regulations to ensure the theatre community would retain its status.

● Sir Richard Eyre told MPs yesterday that there had been "little sign of improvement" so far in the operations of the Royal Opera House, Antony Thorncroft writes.

He also warned that if it was not prepared to put education at the heart of its activities then it deserved to be "indicted and have its grant withdrawn". Sir Richard wrote the recent report on the future of opera and dance in London.

Oscar winner Glenda Jackson argued against cuts Stefan Boness

Criticism is heaped on construction industry

By Jonathan Guthrie in London

Many construction sites are dangerous and chaotic places where workers are treated abominably, the chairman of a government-sponsored review group said yesterday.

Sir John Egan, chairman of the Construction Task Force and chief executive of the airports operator BAA, said the industry "was failing to satisfy most of its customers with the cost and quality of its projects". He was also concerned by "the industry's lack of credibility" in the City of London.

"The average construction site is a scene of chaos deluged with inventory that is not needed and which makes it dangerous and cluttered," he said. Sir John reserved his fiercest attack for the industry's treatment of workers "as a commodity to be hired and fired and given dirty and unsafe conditions to work in".

His comments were supported by John Prescott, the deputy prime minister.

The report unveiled by the CTF yesterday sets out a programme intended to raise efficiency to the level of industries such as car manufacturing. It will be implemented by a steering group chaired by Nick Raynsford, construction minister, in conjunction with Geoffrey Robinson, the paymaster general (a Treasury minister), and Sir John.

The report calls for yearly cuts of 10 per cent in construction time and costs, and reductions of 20 per cent in accidents and defects on completion. The rewards promised to construction companies are yearly rises in profits and turnover of 10 per cent.

Central to achieving these goals are a series of closely-monitored showcase building projects, worth £500m, to test best practices advocated by the CTF. Mr Prescott said that a group of public sector developments would participate, including the M60 Manchester Outer Ring Road Project. Private sector building clients have already volunteered projects worth £100m.

The showcase projects will adopt the "partnering" approach pioneered by businesses such as BAA and BMW's Rover subsidiary. This involves a group of preferred contractors working closely with a client to improve performance over a series of jobs. In traditional, adversarial relationships, a contractor wins work by bidding low and claws back revenue by claiming for "extras" from clients, often through the courts.

Most construction industry bodies welcomed the report. But the House Builders' Federation described it as a "missed opportunity" because the CTF had not encouraged the government to tackle "excessive delays and costs" in the planning process. Construction industry bosses warned privately that new approaches successfully deployed by clients with continuous building programmes might not be adopted by those commissioning one-off projects.

Services 'join in economic slowdown'

By Simon Kuper in London

Domestic sales and orders for manufacturers are at their lowest levels since spring 1993 and the service sector has joined the slowdown, the British Chambers of Commerce said yesterday in its economic survey.

The report also showed that despite the slowdown, wage pressures remained high and companies were having unprecedented trouble hiring staff.

The survey, the biggest of its kind, covers 9,120 companies employing nearly 1m people. The BCC attacked the monetary policy committee of the Bank of England, the UK central bank, for raising rates last month, saying it lacked "real-world experience".

Ian Peters, the BCC's deputy director general, said: "The question now facing the monetary policy committee is not whether interest rates should be cut, but when." Now, however, was too soon for a reduction.

Manufacturing export sales and orders had fallen another 13 points and 12 points respectively from their record lows of last quarter and now show sharp negative balances, the survey said. Ian Fletcher, the BCC's principal economic adviser, said of exports: "We thought we had plumbed the depths last quarter. That has not been the case."

Margaret Beckett, chief industry minister, dismissed claims that the UK was heading for "manufacturing meltdown".

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CORPORATE GOVERNANCE STEEP RISE IN US WILL CONTINUE TO PULL UP BRITISH RATES, SAY CONSULTANTS

Executive pay outpaces inflation

By Clay Harris, Banking Correspondent

Company directors' pay in the UK has increased by more than twice the rate of inflation since the Greenbury report on executive pay was published three years ago.

But UK levels are likely to continue to be pulled up by an even stronger growth in US executive pay, according to a survey published yesterday.

The report by William M Mercer, the benefits consultants, also found remuneration now more closely linked to performance, with the average bonus for chief executives of the UK's 20 biggest quoted companies exceeding 50 per cent of basic pay.

Chief executives have also benefited, on paper at least, from the strength of the stock market. Excluding Jan Leschly of SmithKline Beecham, whose unexercised gain exceeds £52m, they had share options worth an average of nearly £1.39m.

The average 1997 base salary for these chief executives was £549,000, 23 per cent higher than in 1995, according to the survey. They received an average bonus of £311,000. Base salaries ranged from £875,000 for Robert Ingram at Glaxo Wellcome to £409,000 for Mike Blackburn at the Halifax bank.

In the US, base salaries were 38 per cent higher and the average bonus was more than 200 per cent of base salary. Sean O'Hare, leader of Mercer's executive compensation practice, said the Greenbury report had "achieved its key objectives of promoting greater transparency of directors' earnings, greater corporate governance and a stronger link between directors' pay and corporate performance".

Attention no longer focused so much on the amount of pay as on its basis, Mr O'Hare said. Top UK companies, however, were likely to have to pay more to stay competitive with the US. "Executives will enjoy greater gains for success and face greater pains for failure," he said.

Many companies were adopting the US practice of requiring executives to own shares to the value of their base salary, or even more, to qualify for long-term incentive plans. It was more difficult to monitor pay levels and remuneration structures in mainland Europe, Mr O'Hare said, because less disclosure was required.

Anecdotal evidence was also suspect, he said, because some continental European companies exaggerated executive pay levels and others understated them. They were likely, however, to move closer to US and UK models on the structure of compensation deals, if not the size.

Winner emerges in long battle of 'serious' bookstores

Waterstone's, founded in the 1980s, has gained prominence over its older rival in the HMV group. **Alice Rawsthorn** reports

For years, Waterstone's and Dillons fought each other in the retail book market, but hostilities ceased in February, when the rivals were spun off by their respective owners into the HMV Media Group.

It did not make sense for HMV Media, which also includes the HMV music and video stores, to own two chains in the same market niche, both vying for the attention of serious book buyers. Rather than dissipating its investment between two similar businesses, it needed to pick one as its primary bookselling brand.

It has opted for Waterstone's, HMV Media announced last week. Some 48 of the 75 existing Dillons stores, including its flagship on London's Gower Street, will be converted into Waterstone's. The remaining Dillons will be remodelled to appeal to mainstream consumers rather than literary enthusiasts.

Waterstone's always looked favourite, not least because its executives dominate HMV Media's hierarchy. Tim Waterstone – the former W.H. Smith executive who founded the eponymous chain before selling it back to his old employer – is chairman of the new group and Alan Giles, Waterstone's managing director, is joint chief executive. Mr Giles insists that the decision to choose Waterstone's was based on commercial logic rather than favouritism.

Waterstone's, founded in the early 1980s, is far younger than Dillons, which dates back to 1936 when Una Dillon opened Dillon's University Bookshop on London's Store Street. Waterstone's has expanded so rapidly that it is now the bigger chain, with 113 branches against Dillons' 75. It is also more profitable.


Tim Waterstone: founded the chain before selling it back to his old employer Ashley Ashwood

Waterstone's has been more aggressive in establishing an international presence, opening stores in big European cities and US airports. It was also faster at moving into the book superstore market. Borders, the powerful US book retailer, opens the first UK version of its North American books and music superstores on London's Oxford Street next month. Dillons has yet to venture into superstores, but Waterstone's opened the UK's biggest new book store for 50 years in Glasgow last autumn and has secured superstore sites in other cities.

Mr Giles says the clincher for HMV Media was that consumer perceptions of Waterstone's were clearer than of Dillons.

Waterstone's has had the advantage of a consistent strategy. First under the entrepreneurial vision of Mr Waterstone – who conceived a chain combining the buying power and marketing muscle of multiple retailers, with the high standard of service associated with independents – and then under Mr Giles when it was Smith's star subsidiary.

Dillons has had a chequered history. It was sold by Ms Dillon to the University of London, and then to Pentos, the retail group, in 1977. Dillons had opened two other campus bookshops by then. Pentos launched more of them.

When Pentos went into receivership in 1995, Dillons' business consisted of 140 shops, 100 of which were sold to the EMI Group (then Thorn-EMI) for £36m. EMI invested in Dillons but much of its capital went into behind-the-scenes activities, notably computerised stock control systems.

The corporate turmoil has left the public with muddled impressions, according to Mr Giles. He claims HMV Media is committed to investing in the Dillons brand in its new role as a "bookshop for people who need more help buying books than the serious readers who'll go to Waterstone's". He adds: "Some places can support another big bookshop as well as Waterstone's. And we'd prefer to own it, rather than a competitor."

Insurance industry shaken by ruling

By John Mason and Christopher Adams

Accident victims will be awarded substantially higher damages by the courts following a landmark judgment set to cost the insurance industry hundreds of millions of pounds a year.

The judgment was issued in the House of Lords, the unelected upper house of parliament, which acts as the highest court of appeal.

The Lords ruled that damages paid to severely injured people to cover loss of earnings and the cost of future health care should be calculated on the basis that they invest their awards in risk-free index-linked government stock rather than equities.

Lord Lloyd of Berwick agreed the ruling would place a heavier burden on the insurance industry, but said: "I can see nothing unjust". The judge said it was clearly prudent for an accident victim to invest in ILGS rather than equities if he wanted to avoid risk. It was wrong for courts to investment in the stock markets.

Research suggests most accident victims put their money into a bank or building society deposit account rather than invest in equities, he said. Awards will now increase by up to 40 per cent because the courts will assume ILGS produces annual growth of three per cent compared to between four and five per cent from equity investments.

The ruling will cost the insurance industry hundreds of millions of pounds, having the greatest effect on employers' liability and motor insurers.

Personal injury claims total about £1.5bn ($2.5bn) a year. The Association of British Insurers estimated that the cost of outstanding claims could increase by £400m.

Consultant actuaries Bacon & Woodrow said this was a conservative figure.

NEWS DIGEST

LLOYD'S OF LONDON

Average price of capacity more than doubles

Insurance underwriters at Lloyd's are paying Names more to buy their interests at the insurance market. Results from the first of this year's six Lloyd's capacity auctions showed that the average price of capacity had more than doubled from last year. Capacity is the right to back a certain amount of business at Lloyd's and is expressed in premium income. Lloyd's said the average price paid for £1 of capacity was 12.4 pence, compared with 5.2p last year. But the figure was skewed by heavy buying of capacity on a syndicate managed by Hiscox, one of the biggest underwriting agents.

Like other agents, Hiscox is seeking to acquire full control over the business it manages by acquiring the participation rights of Names, the individuals who have traditionally supported Lloyd's. In all, £111m ($183m) of market capacity on 90 syndicates for 1999 was auctioned at a value of £13.8m. **Christopher Adams, London**

LONDON DOCKLANDS

Canary Wharf in new project

Canary Wharf, developer of the office complex in London's regenerated Docklands, plans to start work on another speculative office venture after finding a tenant for its latest project. The company said it had leased its building at Columbus Courtyard to Credit Suisse First Boston, the investment bank that is one of the biggest tenants at Canary Wharf. It was Canary Wharf's first speculative development since the company went into receivership six years ago. The company is chaired by Paul Reichmann, who led the consortium that bought back from the receivers the development he pioneered in the 1980s. **George Graham, London**

FRAUD INVESTIGATIONS

Conviction rate 95%

The Serious Fraud Office achieved a conviction rate of 95 per cent last year, according to its annual report published yesterday. Of 39 people prosecuted for fraud during 1997-98, only two were acquitted and all the principal defendants were convicted. Rosalind Wright, the SFO director, warned fraudsters are now operating internationally, taking advantage of differences between legal jurisdictions in different countries.

She said: "The unregulated internet, on which investments are being offered for sale internationally, will increasingly be used by fraudsters. Tackling such problems successfully will require even more effective international co-operation." **John Mason, London**

RAILWAY COMPLAINTS

Pledge made on infrastructure

Railtrack, the privatised owner of most of Britain's railway infrastructure, yesterday committed itself to improving the national network following criticism by the rail regulator and train operating companies. The company pledged to reduce delays by 7.5 per cent this year, following an improvement of 1 per cent in 1997-98, which came after an improvement of 36 per cent the year before. **Charles Batchelor, London**

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THE ARTS

Reborn Aix goes back to its roots

A cocktail of youth and experience awaits festival visitors, says **Andrew Clark**

Rinat Shaham in Purcell's 'Dido and Aeneas': from Aix-en-Provence, it goes on tour in spring P. Victor MaP.I.P.

The 18th century stone façades of the old town have not changed much over the years. The Saturday morning market is as colourful as it always was, and there's still nothing to match a shady street-side table and a bottle of Provençal wine, as a succession of bronzed beauties drifts past under a balmy sky.

Aix-en-Provence remains very much itself – but over the past couple of weeks its summer festival has been reborn. Aix always was the perfect festival destination, big enough to accommodate a sudden influx of visitors, but not so big that you could miss the festival amid other attractions; and unlike its competitors, the town's well-proportioned charm came with a guarantee of good weather. But in the late 1980s and early 1990s, the Aix festival seemed to lose its way. It had long exhausted the artistic vision which fuelled its initial period of glory in the 1950s and 1960s. There was talk of corruption, and funding bodies were increasingly reluctant to support it. Last year there was barely anything worth calling a festival.

So the arrival this summer of a new director, Stéphane Lissner, along with an injection of money, talent and ideas, posed an important question for Aix's 50th anniversary: could France's premier festival re-establish itself on the international map? The indications so far are entirely positive. Aix is rediscovering what it means to be a festival town. More important, Lissner's programme has revitalised the festival's creative spirit.

Lissner has gone back to the ideals which inspired Gabriel Dussurget when he founded the festival in 1948: the discovery of new talent, the pursuit of the highest standards, and the notion that Mozart must be central to the programme. But Lissner has done more than look to the past. He has put a premium on idealism, persuading world-renowned artists like Claudio Abbado, Peter Brook and Pierre Boulez to come for a fraction of the fees they command elsewhere. He has thrown them together with talented but inexperienced young singers and instrumentalists. And he has created working conditions which enable them all to give of their best.

Whatever the result, the festival's heart is in the right place

The opening productions of *Don Giovanni*, *Curlew River* and *Dido and Aeneas* are clearly the product of intensive rehearsal. Cynics may complain that not everything is of festival standard, that the FFr900 (£90) top seat-price is excessive when you consider the age of some of the performers. But the cocktail of youth and experience is powerful. Brook's *Don Giovanni* was far superior to any of the Mozart served up at Glyndebourne and Salzburg in recent years. Britten's Noh-inspired church parable, staged as an oriental ritual by the Japanese director Yoshi Oida, had a concentrated integrity. Only the Purcell opera failed to match expectations.

The corner-stone of Lissner's policy is the creation of an academy of around 100 students and young professionals, who contribute to festival performances, mount productions of their own and take part in workshops. The chorus in *Don Giovanni*, for example, is made up of academy members; the Britten and Purcell operas are academy productions. For FFr100, you can buy a "passport" to 70 masterclasses, general rehearsals and small-scale shows – a useful way of getting the people of Aix to bond with the restyled festival.

Some of these sessions, such as Robert Tear's Lieder class and Régine Crespin's workshop on *Die Zauberflöte*, have been as instructive as they are entertaining. Others missed the mark: in a staging of one-act operas, it was hard to know who to blame for the dire results – the three apprentice composers or the organiser of the academy's composition class, Philippe Manoury.

Whatever the result, the festival's heart is in the right place. Instead of falling back on the circus-type formulas of so many other European festivals, Lissner has put a premium on creativity. A good organiser and an astute politician, he has adapted for Aix the formula that made his decade in charge of the Châtelet in Paris so successful.

What distinguishes him is his ability to win the trust of great artists, and to create conditions that suit their talents. It was Lissner who persuaded Brook to return to opera after 30 years, who realised that Abbado is at his best working with young musicians, who saw that an academy could act as the festival's conscience and carry its traditions into the future.

His challenge now is to sustain this burst of energy and goodwill. Much of the groundwork has been laid. The Courtyard of the Archbishops's Palace, which houses the festival's main productions, has been upgraded: in place of makeshift facilities, the festival can now count on proper stage machinery, a permanent proscenium and a more comfortable auditorium, constructed in a way that suits the building's character. Lissner has also transformed a neighbouring courtyard, the Hôtel Maynier d'Oppède, into an atmospheric home for academy productions.

This summer's programme, which continues till July 31, will have a substantial follow-through: *Don Giovanni* is to be performed in Stockholm, Lyons, Milan, Brussels and Tokyo, before being revived at next summer's festival; *Dido* and *Curlew* go on tour in the spring. All this adds up to 120 performances outside Aix over the next year.

The *Zauberflöte* workshops have been designed to lay the groundwork for an academy production in 1999, when there will also be a Herbert Wernicke staging of *La belle Hélène* and a production of *L'incoronazione di Poppea* starring Anne-Sofie von Otter. *La traviata* and *The Makropoulos Case*, the latter conducted by Sir Simon Rattle, beckon in 2000. There's no doubt that most visitors are drawn to Aix by the unique location. But if this summer's successes can be consolidated, the festival should develop a pulling-power of its own.

Nowhere else can you taste such a strong flavour of work-in-progress, of a community of musicians for whom public performance is merely icing on the cake of long, hard, but extremely rewarding work.

A strapping good Oklahoma!

THEATRE

ALASTAIR MACAULAY

Oklahoma!
Olivier Theatre, London

A triumph: Jimmy Johnston and Maureen Lipman Alastair Muir

Oklahoma! Out of my dreams ... If you want to know why the new musical was once (50 years ago and more) a great artistic genre, you need go no further than the National Theatre's *Oklahoma!*. And, in particular, to its choral title song. What's in a name? Within a minute, the Rodgers music and Hammerstein lyrics have made you drunk on that name alone.

By the end of the song, you spin in the plenitude of rhythm, which in turn suggests the plenitude of the American spirit at its most outgoing and at its most pure, and the vast human and natural potential of a young territory and community.

Oklahoma! reminds us that, when musicals were great, they offered a celebration of energy, spontaneity and rhythm that enlarge our sense of what life itself could contain. Simply, the show is a cornucopia of abundant melody: something that can be said of no British musical and of virtually no post-1950 musical at all.

Musical connoisseurs will want to hear the seldom-played songs, notably Jud's "Lonely Room", that grace this unusually full version of the show, in which the celebrated dream ballet is given the big treatment; newcomers should discover this classic of the genre where it belongs, in live theatre.

This perfectionist, however, must observe a few flaws. Most of the American accents are only tolerable, and there are one or two terrible vowels. "Out of my dreams" is a much more beautiful (and poetically expressive) melody than anybody here shows us. Both the players of the romantic leads, Josefina Gabrielle as Laurey and Hugh Jackman as Curly, employ a weak, braying vibrato on sustained notes that tarnishes the beauty of Rodgers' melodies. Surely the third and fourth lines of "Oh what a beautiful mornin'" should always be sung in one big Verdian breath. "I've got a marvellous Fee-Lin'-Ev'-rythin's goin' my way." Trevor Nunn, directing, lets some of the younger performers make obvious big choices rather than small telling ones: so there are several whole passages where *Oklahoma!* stops feeling true and starts feeling repro. Curly may sing of "that ol' weepin' willer", but the landscape created by Anthony Ward's designs looks very parched

The most overrated passage of *Oklahoma!* has always been the dream ballet.

Susan Stroman here has reproduced the de Mille approach, with the result that, as pure choreography, there is nothing interesting to see.

But Stroman's triumph is that she simply makes the whole cast dance, really dance, pouncing on to the beat and leaning way off balance; the style is intoxicating. Halfway through the big barn dance that opens Act Two, the way everybody keeps turning right and left while executing the same folk step (*battement devant raccourci*, in ballet terminology) is such fun that it rightly wins a wave of applause while they are still at it. Both in fully developed dance sequences and in incidental body language, this *Oklahoma!* is frequently a joy.

There is just one superlative performance here, and that is Jimmy Johnston as Will Parker. He catches the right simplicity with no ounce of condescension, and when he shifts "Kansas City" into ragtime the effect is disconcertingly blissful. (As for his rope trick; and his hello technique ...). Maureen Lipman's focus and absorption in the world onstage helps to make the show a triumph from the beginning.

Josefina Gabrielle, handed the very tough assignment of both singing and dancing Laurey, acquits herself with exceptional stamina. Hugh Jackman is a natural Curly in build and looks, as is Shuler Hensley as Jud Fry. The ensemble that Nunn has created, and the games of scale and perspective inventively created by Ward's designs, make one enchantment after another.

Supported by the Mackintosh Foundation.

Scenes of sloth and splendour

THEATRE

BRENDAN LEMON

Twelfth Night
Lincoln Center Theatre at the Vivian Beaumont, New York

The audience entering the Vivian Beaumont in New York these midsummer evenings is confronted by a startling stage picture: from a sumptuous red carpet of peacock patterns, a quintet of musicians is playing trance-like melodies and, nearby, a handful of men (Duke Orsino and his followers, it turns out) lolls near a lily-pad-laden pool, sleeping off what look like the effects of too much opium.

A profusion of lamps drip and flicker from the ceiling, suggesting a veil of tears, and gilded paths spiral into the distance, employing the foreshortening effects so beloved by the production's designer, Bob Crowley.

It is a scene of sensuality, sloth and splendour, straight out of *The Arabian Nights*. Although it is luscious to gaze upon, the image doesn't quite cue whether Nicholas Hytner's production will follow the modern line on *Twelfth Night* – seeing it as a dark, profound play about alienation, or highlight the low comedy.

Doubts are dispelled two scenes later, when a pickled Sir Toby Belch (Brian Murray) staggers on to the scene. When he exits three hours later, he carries his clothes in a suitcase and the evening securely in his back pocket. Murray, a versatile actor who in recent years has made so many indelible contributions to the New York theatre that he is in danger of being taken for granted, has ample support in his gamboling. The Andrew Aguecheek of Max Wright is equally inspired. Falling about the setting, but falling mercifully short of slapstick or mugging, the pair establish a kind of Laurel and Hardy rhythm.

In recent decades, so much critical and directorial energy has been focused on *Twelfth Night's* other characters – particularly the cross-dressing disguise of the shipwrecked Viola – that we may be excused for forgetting that Sir Toby, in fact, has the play's biggest part.

In Murray's hands, he is more than the usual bestial sot, just as Wright transcends Sir Andrew's archetypal status as a cretinous idiot. They may brighten the proceedings, but unlike so many of Shakespeare's other buoyant creations (Falstaff being the towering exception), they do not serve as mere comic relief.

At least not in this staging. For instance, when the pair emerge from behind a garden wall late in Act II, having observed the steward Malvolio (Philip Bosco) read the fake, gulling letter from his mistress, Olivia (Kyra Sedgwick), they not only elicit the production's largest laugh but illustrate unforgettably the play's overriding theme, the illusion of appearances.

That these two drunkards throw this motif into such sharp relief has less to do with any imposing interpretive choices on Hytner's part than with the results of his casting.

The prospect of Helen Hunt set critical blades sharpening all over town

Much was made of Hytner's decision to capitalise on the availability of this year's best actress Oscar winner, Helen Hunt, as Viola. The prospect of Hunt set critical blades sharpening all over town. Alas, those blades will draw even less blood than the swordplay between Viola, the two Sirs and the sea captain Antonio, when the paths of Viola and her long-lost twin brother Sebastian begin to merge.

Hunt's performance is perfectly adequate: her voice lacks resonance and emotional shading, but the portrayal, like the production, wins us over less from its ability to evoke complex emotion, than from its ability to induce summer-festival pleasure. (*Twelfth Night* is a part of the Lincoln Center Festival.)

And Hunt is, undeniably, gifted at physical comedy. Her colleagues Paul Rudd, as the Duke, and Sedgwick, as Olivia, score fewer laughs but are more effusive and touching in their confused ardour.

As for Bosco's Malvolio, he relies too heavily on the vocal mannerisms of Gielgud and Richardson, though he does have tremendous presence. And, besides, the production so minimises the play's melancholy that a steward reduced in stature seems no great loss. But what remains in the memory are the shimmering images of Crowley's set, the wonderfully eclectic costumes (by Catherine Zuber), and the hilarious, expert timing of Murray and Wright.

Until August 30.

INTERNATIONAL Arts Guide

ATLANTA

EXHIBITIONS
High Museum of Art
Tel: 1-404-733 4444
Self-Taught Artists of the 20th Century: An American Anthology. 300 works by more than 30 artists, all of them without formal training, including Grandma Moses (1860-1961) and Ken Grimes (b.1947). Organised by the Museum of American Folk Art, the exhibition will transfer to Texas; to Sep 20

BASLE

EXHIBITION
Kunstmuseum
Tel: 41-61-271 0828
www.kunstmuseumbasel.ch
Andy Warhol: Drawings 1942-1987. Around 230 works by the American pop artist, most of them on loan from the Andy Warhol Museum in Pittsburgh and the Warhol Foundation in New York; to Jul 19

CHELTENHAM

CONCERTS
Cheltenham International Festival of Music
Tel: 44-1242-227979
● City of London Sinfonia: world premiere of a specially commissioned Oboe Concerto by Nigel Osborne, conducted by Richard Hickox. Programme also includes works by Mozart and Haydn; Town Hall; Jul 18
● BBC National Orchestra of Wales: conducted by Grant Llewellyn; Jul 19

EDINBURGH

EXHIBITION
Scottish National Portrait Gallery
Tel: 44-131-624 6200
Robin Gillanders: Little Sparta. Photographs of the painter Ian Hamilton Findlay's garden at Dunsyre in the Pentland Hills. Gillanders has been working there since 1993, and the display includes a range of collaborative works - posters, prints and postcards; from Jul 17 to Nov 29

GLIMMERGLASS

OPERA
Alice Busch Opera Theater, Cooperstown
Tel: 1-607-547 2255
The Mother of Us All: by Virgil Thomson. Conducted by Stewart Robertson in a new staging by Christopher Alden, with sets by Allen Moyer; Jul 18, 20

GLYNDEBOURNE

OPERA
Glyndebourne Festival Opera
Tel: 44-1273-815 000
● Capriccio: by R. Strauss. Revival conducted by Andrew Davis and directed by John Cox. The Countess is sung by Kiri Te Kanawa until Aug 5 and thereafter by Felicity Lott. With the London Philharmonic Orchestra; Jul 18, 22
● Simon Boccanegra: by Verdi. New production conducted by Mark Elder in a staging by Peter Hall. With the London Philharmonic Orchestra. The title role is sung by Elena Prokina; Jul 19

GRAZ

DANCE
Opernhaus
Tel: 43-316-80080
● Kirov Ballet: Fokine evening; Jul 17
● Kirov Ballet: La Bayadère; Jul 18
● Kirov Ballet: The Sleeping Beauty; Jul 19

LONDON

CONCERTS Barbican Hall
Tel: 44-171-638 8891
Carmen: by Bizet. Sir Colin Davis conducts the London Symphony Orchestra in a concert performance, with soloists including Olga Borodina and José Cura; Jul 17
BBC Proms, Royal Albert Hall
Tel: 44-171-589 8212
● BBC Symphony Orchestra: Andrew Davis conducts Berlioz's The Damnation of Faust on the first night of the Proms. With the BBC Singers and Symphony Chorus, and soloists Richard Margison, Bryn Terfel, Ann Murray and Donald Maxwell; Jul 17
● City of Birmingham Symphony Orchestra: conducted by Simon Rattle in Szymanowski's King Roger. With soloists including Thomas Hampson and Philip Langridge; Jul 19
● Les Arts Florissants: conducted by William Christie in Rameau's Zoroastre; Jul 18

EXHIBITIONS
Concourse Gallery, Barbican Centre
Tel: 44-171-638 8891
www.barbican.org.uk
Absolut Cobblers: shoes as art, created by some of Britain's leading shoe designers and shown alongside work by students of Cordwainers College; to Aug 16
Hayward Gallery
Tel: 44-171-261 0127
www.hayward-gallery.org.uk
Bruce Nauman: spanning the career of the American artist, b.1941, this exhibition focuses on his relationship with language, and includes sound and video installations as well as neon pieces like One hundred live and die (1984). The exhibition has been seen in Paris and will travel to Helsinki; to Sep 6
National Gallery
Tel: 44-171-839 3321
Venice through Canaletto's Eyes: taking the form of a journey along the Grand Canal, this display brings together 23 paintings and drawings of the artist's native city, mainly drawn from British collections; to Oct 11

OPERA
BBC Proms, Royal Albert Hall
Tel: 44-171-589 8212
Angel Magick: London premiere of this specially commissioned one-act opera by John Harle, conducted by John Harle in a staging by David Pountney; Jul 21

MILAN

OPERA
Teatro alla Scala
Tel: 39-02-88791
www.lascala.milano.it
Lucrezia Borgia: by Donizetti. Conducted by Gianluigi Gelmetti in a staging by Hugo De Ana. Casts vary; look out for Renée Fleming; Jul 18

MONTREUX

JAZZ
Montreux Jazz Festival
Tel: 41-21-966 4439
www.montreuxjazz.com
Montreux Jazz Festival: this year the musical church has been broadened to incorporate a greater range of styles. In addition to the usual line-up of jazz, blues and soul artists, a number of young newcomers have been drafted in. Highlights this week include Youssou N'Dour and LTJ Bukem (both on Saturday, the festival's last night, at the Stravinski and Miles Davis Halls respectively); to Jul 18

MUNICH

OPERA FETIVAL
Bayerische Staatsoper
Tel: 49-89-2185 1920
● Don Giovanni: by Mozart. Conducted by Peter Schneider in a staging by Nicholas Hytner, designed by Bob Crowley. Cast includes Alison Hagley; Jul 19
● Elektra: by R. Strauss. Conducted by Peter Schneider in a staging by Herbert Wernicke. Cast includes Marjana Lipovsek; Jul 17, 20

SANTA FE

OPERA
Santa Fe Opera
Tel: 1-505-986 5900
www.santafeopera.org
Madama Butterfly: by Puccini. John Crosby conducts a production directed by John Copley; Jul 17

SCHLESWIG-HOLSTEIN

CONCERTS
Schleswig-Holstein Music Festival
Tel: 49-431-567 080
● Orchestra della Toscana: conducted by Gabriele Ferro in works by Rossini, Monteverdi and Pergolesi; Jul 17
● Orchestra della Toscana: conducted by Luciano Berio in works by Schubert and Berio: Schloss, Kiel; Jul 18

STUTTGART

OPERA
Staatsoper Stuttgart
Tel: 49-711-202090
Tosca: by Puccini. New production by Willy Decker, conducted by Lothar Zagrosek with designs by Wolfgang Gussmann; Jul 18, 21

TOKYO

CONCERT
Suntory Hall
Tel: 81-3-3584 9999
Yomiuri Nippon Symphony Orchestra: conducted by Alexander Lazarev in works by Mendelssohn and Dvorák; Jul 17

VERONA

OPERA
Arena di Verona
Tel: 39-045-800 5151
www.arena.it
Un Ballo in Maschera: by Verdi. New production by Giuliano Montaldo with sets by Luciano Ricceri. Conducted by Daniel Oren (Angelo Campori on Aug 26). Maria Guleghina sings on 24 Jul; Jul 17

■ TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:

06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:** 05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

PHILIP STEPHENS

Dissent into chaos

The Bank of England's Monetary Policy Committee is more like a senior common room than a real policy making forum

Most people, I suspect, missed the news from the Bank of England this week. Tony Blair's spending plans took the headlines. Mr Blair intends to demonstrate that decent public provision is not inimical to sensible economics. It is a noble ambition. But its fate may lie with an institution most voters have not yet heard of – the Bank's Monetary Policy Committee (MPC).

In pouring money into Britain's education and health services, Mr Blair has staked his political fortunes on a soft landing for the economy. A prolonged recession would wreck the fiscal arithmetic. For all the reassurances of Gordon Brown, the chancellor, the government has gambled. Boom could yet turn to bust. If Mr Blair has misread the runes, we will have to pay heed again to William Hague's Conservatives.

Enter the Bank. Mr Brown has disavowed an active role for fiscal policy in economic management. Keynes remains as out of favour in the 1990s as he ever was in the 1980s – unless, that is, we are talking about Japan. So it is left to the MPC, charged only a year ago with the setting of interest rates, to steer the economy between Scylla and Charybdis. The omens are anything but encouraging. The committee has thus far lacked both leadership and predictability.

This week it published the minutes of the meeting last month at which it decided to raise interest rates. For once, there was near-unaminity in the nine-member committee. Eight voted for the 0.25 point increase which took rates to 7.5 per cent. Only one, the doveish DeAnne Julius, called for a move in the other direction.

It would be premature to celebrate this apparent decisiveness. Never mind that raising rates may have been a mistake. It is the process which concerns me here. There is nothing to suggest that last month's near-consensus was anything other than a purely temporary phenomenon.

We will have to wait another five weeks to see how the votes were cast at this month's meeting. But on the evidence of the previous six months, the MPC bears a closer resemblance to a post-graduate seminar than to a forum for strategic decision-making.

On three of those six occasions Eddie George, the Bank governor, was at odds with Mervyn King, the deputy responsible for monetary policy. We are told to make nothing of this. Both share the same ultimate objective. But how many other organisations work smoothly with the chief executive and deputy so publicly in dispute over tactics? It is said that there have been quiet suggestions from colleagues that they might settle any differences out of earshot of the MPC's monthly meetings. The advice has been rejected.

Twice Mr George has been obliged to use his casting vote to prevent the MPC raising rates against his judgment. And a sharp philosophical divide has opened up between those (including Mr King) who believe that rates should be moved quickly and often and those (led by Mr George) who put a higher premium on stability.

All this is as it should be, members of the committee will tell you. They are individually rather than collectively responsible for hitting the government's 2.5 per cent inflation target. Sure, the outcome each month is no more than the sum of nine separate decisions. But each is informed by the vigour of the debate.

Part of the problem is that six of the nine are economists. Let's be clear. I hold no prejudices against that honourable profession. Alan Greenspan has made a superb chairman of the US Federal Reserve. But to put six economists in the same room is to invite what one commentator has called paralysis by analysis.

As a result the committee's conclusions are entirely unpredictable. There is no rhythm to the monthly deliberations. The participants seem trapped in the headlights of the latest economic indicators. The Bank finds it impossible to guide the expectations of bond and currency markets. Its quarterly Inflation Report points in one direction, the conclusions of the committee in another. Industry pays the price in unpredictable swings in the exchange rate.

When Mr Brown set up the MPC he calculated a heavy weighting of independently-minded economists would buttress its standing in financial markets. A committee of friends from business or politics would have undermined the credibility of the inflation target. The chancellor did not anticipate, though, the present fragmentation of opinion. Rather, Mr Brown assumed, wrongly as it now turns out, that the governor and his staff would provide an anchor for the committee's discussions.

To make such observations is to invite scorn from some of its members. When I last suggested that ordinary folk would have greater confidence in a less fragmented process, Willem Buiter, retorted that such views were "profoundly mistaken". Individual purity, it seems, must never be sacrificed to collective pragmatism. And yet Mr George protests that financial commentators are focusing too closely on the votes of individuals.

What rather perplexes me is why this brand new British model of atomised decision-making is apparently so unappealing to the rest of the world. After all, most other developed nations have had independent central banks for some time. Yet who could imagine Mr Greenspan tolerating serious dissent from his Fed staff? Likewise, the Bundesbank works on the presumption that Hans Tietmeyer and his senior staff set the parameters of monetary policy. And in New Zealand, of course, the governor bears sole responsibility.

In each of these cases, the framework of central bank independence offers a measure of predictability. It is not perfect, but sufficiently robust to avoid frequent shocks. Decisions are shaped by strategic analysis. Dissent tends to be the exception. In Britain it is fast becoming the rule.

It is too late now to rewrite the legislation under which the MPC operates. But not too late, I think, for its members to reconsider their approach. The risks over the coming year are obvious. The economy is heading into a downswing and, quite probably, a recession. A hesitant approach to cutting interest rates will be as damaging as it has been in raising them. The committee should step out of the senior common room. The credibility of the Bank's independence is on the line. For Mr Blair, the stakes are higher still.

■ From this week, Philip Stephens's politics column will continue to appear every Friday. But Peter Martin's business column will appear every Tuesday. Martin Wolf's column will appear weekly every Wednesday. Samuel Brittan's Economics Viewpoint will continue to appear every other Thursday, alternating with Lionel Barber's European Viewpoint.

LETTERS TO THE EDITOR

Americans' position on Nazi gold is disingenuous and offensive

From Mr Alen Kobryn.

Sir, To argue, in summary form, as does your report "Relations worsen in 'Nazi gold' dispute" (July 11) that "At the heart of the dispute is the refusal by the Swiss government and central bank to join talks to settle claims over assets and gold looted by the Nazis" is accurately to characterise the current state of the affair and tacitly to drift in the desired American direction.

The American demands have from the first been essentially extortionate in character, a matter of guilt by accusation, reinterpretation of history, and national and institutional character assassination, with more threatened to follow if the essentially arbitrary monetary demands were not met. The fact that all this has been carried out in the name of the victims of the Holocaust is both disingenuous in the extreme and particularly offensive.

That the American federal government, having initially played the role of principal accuser in the affair, now wishes to shift role to that of negotiator, is equally disingenuous and equally transparent. The core claims in these disputes were fully addressed in the negotiations following the second world war as a matter of negotiation and settlement among the relevant sovereign states.

If, in fact, the enthusiastically litigious claimants and special interest groups have a claim to make, it ought, therefore, logically and legally, as a matter of subsidiarity, to be directed against their own, American, government. While one would hope that the Swiss are able to withstand what is, in the end, a brutally straightforward shakedown, one recognises the reality that they may, in the end, be forced to negotiate.

If such negotiation, such accommodation of superior force, is forced upon them, while far less ugly than the realities they faced some 50-plus years ago, it will be sadly similar in its essential character.

Alen Kobryn,
535 West 111 Street #23,
New York NY 10025, US

Does UK chancellor's plan add up?

From Mr Kenneth P. Armitage.

Sir, More money for schools and hospitals ("Education and health are the biggest winners", July 15) must be welcomed especially if it leads to more books and smaller class sizes; and more beds, more operations and shorter waiting lists for patients.

The first question must be, how does the chancellor intend to pay for these proposed increases? And, second, what about the workers? Smaller class sizes can only be achieved by recruiting more teachers; and more operations and more beds necessarily mean more surgeons and more nurses.

The greatest challenge for any organisation in the delayered, downsized, re-engineered and outsourced 1990s, having removed simple hierarchical structures and a corporate ladder to climb, thereby reducing opportunities for advancement, is how to motivate and retain staff. The point is that people are motivated in different ways and for different reasons, but pay and conditions are important factors.

If an organisation is not geared to pay a fair system of remuneration, and that includes public services, then the only other ways to motivate are through the provision of the most up-to-date systems and technology to assist people to achieve targets and goals; in the design, decor, furnishings, facilities and cleanliness of buildings and working conditions; and by investing in vocational training programmes to enable the workforce to grow practically and professionally, all areas which appear to be lacking in the state education system and in the National Health Service.

Has the chancellor really covered these requirements in his spending plans?

Kenneth Armitage,
8 Debden Valley Drive,
Kesgrave,
Suffolk IP5 2TH, UK

Benefits from joint use of Gibraltar airport

From Mr Solomon A. Seruya.

Sir, Further to your leader "Rock relief" (July 10), while it is true that Málaga and Seville airports provide valuable facilities to this part of the world, they are no substitute to the development of the Gibraltar airport.

The joint use of this airport by Gibraltar and Spain would not only benefit the Rock but the whole area from Tarifa to Estepona and, in particular, Spain's leading port Algeciras and the magnificent international golf resorts of Sotogrande, Valderrama, San Roque Club and Alcaidesa. With the Gibraltar airport on the doorstep, other developments and employment would follow to the benefit of all sides.

Realising the potential advantages of the Gibraltar airport, all political parties of the La Linea municipality recently supported this view unanimously.

Solomon A. Seruya,
former minister,
Gibraltar government,
163 Main Street,
Gibraltar

Diligence required

From Mr Jean-Pascal Rolandez.

Sir, I refer to David Harrison's letter (July 13) about French business education. It seems Mr Harrison simply fails to act with due diligence when hiring a young graduate from the French business schools HEC or Essec. Going through the details of a résumé from such a graduate, during a proper interview, clearly highlights the professional strengths and weaknesses of the young job applicant.

I have had several experiences with young HEC or Essec graduates, all of them happy ones. But I took the trouble to quiz the candidates about their experiences and the courses they took at such institutions. All of such courses apparently are sanctioned by an exam at the end of each term.

Jean-Pascal Rolandez,
46 Queen's Gate Terrace,
London SW7 5PJ, UK

Misplaced alliance

From Mr John D. Taylor MP.

Sir, Norman L. Gregory (Letters, July 15) writes that "it seems likely that Scotland will declare its independence". He then calls the remaining components of the Union – England, Wales and Northern Ireland – a "rump". He concludes that, in such circumstances, England may not wish to remain in Union with Northern Ireland. His presumption avoids the obvious question – would Northern Ireland prefer to be with England or Scotland? Since Ulster Catholics and Protestants have greater historical ties with Scotland than with England, his presumption may be misplaced!

John D. Taylor,
deputy leader of the Ulster Unionist party,
House of Commons,
London SW1A 0AA
UK

Number One Southwark Bridge, London SE1 9HL

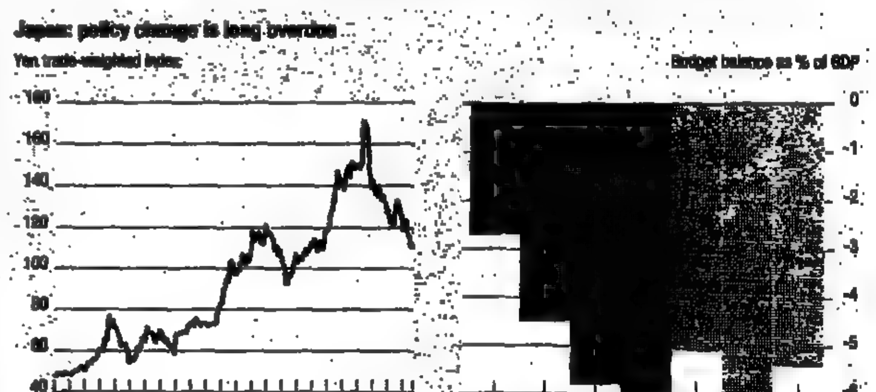
We are keen to encourage letters from readers worldwide. Letters may be faxed to +44 171-873 5938 (set fax to 'fine'), e.mail: letters.editor@ft.com Published letters are also available on the FT web site, http://www.FT.com Translation may be available for letters written in the main international languages. Fax 0171 873 5938. Letters should be typed and not hand written.

PERSONAL VIEW ALLAN MELTZER

Time to print money

Japan should take the opportunity provided by a new government to change economic policy, pursue monetary expansion and devalue

The US Treasury has been giving Japan bad advice for several years. Repeatedly it has given the message: reduce tax rates permanently and maintain the exchange rate for the yen in its recent range, about 135 to 145 yen to the dollar. A permanent tax cut was supposed to do what previous fiscal efforts had failed to do – generate sustained expansion of the Japanese economy.



No one should doubt that Japanese expansion is desirable for Japan, for its neighbours and for the rest of the world. The Treasury is right about that. The Japanese government has watched the economy stagnate too long. A policy change is overdue.

The problem with the US Treasury's advice is that few would, and none should, believe that Japan can reduce tax rates permanently. Japan has run big budget deficits for the past five years and accumulated a large debt that must be serviced at considerably higher interest rates in the future. Debt of the national railways and others add to the burden. Sooner or later taxpayers are going to be responsible for $500bn of bad bank debt. And Japan must soon start to finance large prospective deficits for old-age pensions and healthcare.

There is no way to finance these present and future liabilities that will not involve higher future tax rates. The US Treasury may not understand it, but the ordinary Japanese citizen has been told the truth about this problem for years. That truth is embedded in the Fiscal Reform Act, which requires scheduled deficit reduction. The Japanese have every reason to believe that any tax reduction must be temporary.

The US Treasury is wrong, also, when it tells the Japanese to maintain the value of the yen and even to intervene in the markets to prevent its fall. It is true that the yen has depreciated from its peak of 80 yen to the dollar over the past two years. It is just as true that the yen has appreciated against the dollar in most of the years since 1971. When the US grew more slowly than Japan, or had more inflation, the dollar depreciated and the yen rose.

The fluctuating rate system should work both ways. Strong economies appreciate; weak economies depreciate. A 20 per cent or 25 per cent appreciation of the yen against the dollar would bring the yen/dollar exchange rate back to the upper end of the band that it has been in since 1988. The yen would strengthen again in an expanding Japanese economy.

What is the alternative? Deregulation is desirable, but it would do its work slowly. If temporary tax cuts are saved, not spent, and permanent tax cuts are impossible, Japan's choice is between devaluation and renewed deflation.

The deflationary solution runs grave risks. Asset prices would continue to fall. Investors anticipating further asset price declines would be tempted to hold cash and wait for better prices. The fragile banking system would face larger losses as asset prices fall.

Monetary expansion and devaluation is a much better solution. It would be a big change from the policy pursued so far. But this week's resignation of the prime minister, Ryutaro Hashimoto, after his party's heavy electoral defeat, provides a good opportunity to make the change in direction.

An announcement by the Bank of Japan and the government that the aim of policy is to prevent deflation and restore growth by providing enough money to raise asset prices would change beliefs and anticipations. Rising asset prices, including land and proper prices, would revive markets for these assets once the public became convinced that the policy would be sustained.

The volume of bad loans at Japanese banks is not a fixed sum. Rising asset prices would change some loans from bad to good, thereby improving the position of the banking system. Faster money growth would add to the banks' ability to make new loans, encouraging business expansion.

This programme can work only if the exchange rate is allowed to depreciate. Five years of lower interest rates have shown that there is no way to maintain the exchange rate and generate monetary expansion. Recent legislation has freed the Bank of Japan formally. But formal freedom means nothing economically if the Ministry of Finance dictates exchange rate policy and chooses to keep the exchange rate within a narrow band.

Some will see devaluation as an attempt by Japan to expand through exporting. This is a half-truth. Devaluation will initially increase Japanese exports and reduce imports. As the economy recovers, incomes will rise. Rising incomes are the surest way of generating imports of raw materials and sub-assemblies from Japan's Asian neighbours, and computers, software, machinery and other exports from the US and the European Union.

The US Treasury and the Japanese Ministry of Finance have offered one fiscal nostrum after another. None has worked to restore growth and end deflation. The Bank of Japan has just gained its independence from the ministry. It should use it in the interest of Japan and its hard-pressed neighbours. Let money growth increase until asset prices start to rise.

The author is university professor of political economy, Carnegie Mellon university, and visiting scholar at the American Enterprise Institute

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FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700

Friday July 17 1998

Grey import whitewash

European Court of Justice decisions have long favoured the promotion of European Union integration. EU citizens have often benefited from that institutional bias. But the Court's judgement outlawing cheap "grey" imports from outside the EU is an exception. It is bad for consumers, bad for competition and bad for European economies.

That was doubtless not the Court's intention. The point of law on which it was asked to rule was whether the EU trademark directive overrode member states' legislation on grey imports. But in declaring the directive paramount, the Court handed a gift to branded goods manufacturers, by upholding their right to prevent the sale of their products in the EU if these were sourced elsewhere without their authorisation.

The danger is that that prerogative will be used to erect barriers around the EU and restrict international price competition. Indeed, that may be happening already. Prices of many branded goods in the EU exceed those in the US, for example, by far more than can be explained by exchange rate movements. Often, those differentials are sustained by manufacturers' curbs on the export of products from low-price markets to expensive ones.

By endorsing that practice, yesterday's judgement is likely to encourage branded goods companies to "milk" the EU market for profits, which they can use to subsidise lower prices elsewhere. That would not only unfairly exploit European consumers; it would thwart the growth of global competition, about which executives of those companies are prone to wax lyrical in public. It could also frustrate the development in Europe of the global trading potential of electronic commerce.

Furthermore, the Court's decision flies in the face of the EU's own economic principles. Brussels' single market watchdogs are strongly committed to encouraging grey imports between EU members as a stimulus to competition and economic efficiency. To proclaim EU grey imports good, but non-EU grey imports bad, is Orwellian double-speak.

Unfortunately, the nonsense seems unlikely to be put right soon. That could be done by amending the trademark directive. However, the law is vague on grey imports from outside the EU precisely because governments are deeply divided on the issue. Another option would be to challenge the effects of the Court's decision by invoking EU competition rules. But these are untested in this area.

A third possibility would be for the EU and US to agree to free flows of grey imports between them. That would be a useful goal for their efforts to forge a closer economic partnership. The snag is that big companies on both sides of the Atlantic would have little reason to support a scheme which could reduce their profits in the EU.

Ultimately, technology may offer the best hope. If e-commerce does prosper in Europe, despite the Court's decision, it will give consumers a powerful means to scour the world for bargains. The task of monitoring millions of individual transactions could then make the directive unenforceable. Meanwhile, European consumers had better get used to paying through the nose.

Helping Ukraine

President Leonid Kuchma of Ukraine will hope the International Monetary Fund's promise to bail out Russia will increase his own chances of securing emergency credit. But when the IMF delegation arrives in Kiev next week, it should make clear there is no connection between money for Russia and money for Ukraine.

Of all the countries of the former communist bloc, few have made as little progress towards market reforms as Ukraine. As a result, the country is run by a corrupt network of politicians and crony capitalists. Its gross domestic product is now less than 40 per cent of 1991 levels; barter accounts for two-thirds of economic activity; with a $450m Eurobond falling due next month, government finances are close to collapse. Even Russia looks good by comparison.

The IMF must impress on Mr Kuchma that, without a serious commitment to market-oriented reform, Ukraine will not receive any more IMF finance. And the fund should stick to its guns even if it means this debt-laden country slides into default.

Ukraine rightly benefited in the mid-1990s from its decision to abandon nuclear weapons. A grateful west, led by the US, lent support without insisting on economic reform. The country became the third biggest recipient of US aid after Israel and Egypt.

It was also correct to use such finance to counter Russia's pervasive influence in Kiev. While the west would be stupid to generate hostility between the former Soviet Union's two most important republics, western interests are best served by a strong and independent Ukraine.

However, western aid should not be given at any price. The last $2.2bn IMF loan was completely wasted. Mr Kuchma appears finally to have realised the depths of the crisis. In the past few weeks, he has passed decrees to reform the tax system – a key IMF demand. But there is still no guarantee they will be accepted by parliament, let alone implemented by the bureaucracy. Unlike Russia, where many prominent officials are ready to fight for reform, Ukraine has few.

The country is seeking a $2.5bn medium-term loan from the IMF. The fund had the courage to turn down a similar request from Kiev last year and to suspend talks this year on a more modest short-term loan. It should hold firm. Its tough line may finally be producing results. Without this pressure, there is every likelihood that Mr Kuchma and his cronies will revert to type.

Brown on pay

When he sat in front of the incoming tide, King Canute wanted to show his courtiers the stupidity of their flattery. Does Gordon Brown, the UK chancellor, have an equally good reason for calling for responsible pay bargaining? In a competitive market, organisations are, after all, no more likely to take his advice than water droplets were to avoid wetting the king.

Mr Brown's anxiety is understandable. Pay in the private sector has been rising fast – most recently at an underlying annual rate of 6.2 per cent. Worse, pay inflation has been rising since unemployment fell much below 8 per cent. The labour market reforms of the past two decades seem to have left the structural rate of unemployment at between 7 and 8 per cent, 2 to 3 percentage points greater than today.

Higher unemployment is coming. Unfortunately, pay bargaining is too atomised for decision-makers to take the impact of their actions on the wider economy into account. Mr Brown may exhort; but nobody is there to respond.

Since the chancellor must know this, what justification might he have? One possibility is that bargainers do not believe the Bank will achieve the inflation target he has set. So he is doing the Bank's job of explanation for it. Whether a man who is not on the Monetary Policy Committee can convince people of the seriousness of those who are is, alas, doubtful.

Another explanation could be Mr Brown's desire to justify his policy on public sector pay. After all, only this week he told pay review bodies to take departmental spending limits, the inflation target and the need to achieve the government targets for output and efficiency into account.

Yet private sector pay has risen 26 per cent and public sector pay only 14 per cent since January 1993. Mr Brown will not be able to sustain this growing divergence by pointing to his calls for pay restraint in the private sector. This leaves one last explanation: Mr Brown hopes to blame the coming economic slowdown on private greed. Even as a political tactic this will fail: the chancellor is always blamed. In any case, bargainers are doing what makes sense for them. The country – and Mr Brown – must live with the consequences.

Justice is blind

Richard Tomkins considers the gathering business disquiet over the huge payouts of the US tort system

Silicone breast implants are safe. That is the consensus of the world's scientific community, as established over the course of at least 20 studies and reinforced on Tuesday by the results of an independent inquiry commissioned by the UK government.

Yet in the US, Dow Corning, once the biggest manufacturer of silicone breast implants, last week agreed to pay $3.2bn (£1.9bn) to settle claims brought by lawyers for 170,000 women with the company's implants – one of the biggest tort settlements in the history of US litigation.

To anyone unfamiliar with the US tort system, Dow Corning's decision would have looked odd. From the start of the long-running controversy over silicone breast implants, the company had strongly denied allegations that its products caused cancer, arthritis, multiple sclerosis and other serious illnesses.

Its position was supported by medical science. Like the UK inquiry, studies in the US and other countries found that silicone breast implants brought no greater health risk than other surgical implants, and that the incidence of ill-health among women with breast implants was no greater than in the wider population.

But in the end, it came down to mathematics. Dow Corning – already in chapter 11 bankruptcy protection because of the litigation – was staggering under the weight of 19,000 lawsuits in the US. Even if it had prevailed in every case, each would have cost $1m to win. Ultimately, as the plaintiffs' lawyers had calculated, it was cheaper for the company to settle than to fight.

Was that justice? Not according to US advocates of tort reform. "The settlement is a profound indictment of the US tort system," says Lester Brickman, professor of law at the Cardazo Law School of New York's Yeshiva University. "Any tort system should be regarded as defective where defendants feel obligated to pay out substantial sums of money despite the fact that there is no credible evidence that their product caused injury."

David Bernstein, a professor at George Mason University School of Law in Fairfax, Virginia, describes the tort system as "a disaster". He says: "It resembles a wealth redistribution lottery more than an efficient system designed to compensate those injured by the wrongful actions of others."

Notoriously, the US is the most litigious society in the world. This, after all, is the country in which an 81-year-old woman sued McDonald's after spilling hot coffee in her lap and won a jury award of $3m in damages (later reduced to $480,000 by a judge).

Of course, many claims are justified. But for business, the burden of the tort system is becoming ever more severe. According to the US Chamber Institute for Legal Reform, an affiliate of the US Chamber of Commerce, the annual cost of US civil liability litigation soared from less than $30bn to more than $160bn in the 20 years to 1996. This cost is passed on.

"It shows up in the form of increased insurance premiums, it drives up the price of goods and services, and it keeps new products out of the market because companies are fearful of their potential liability," says Larry Kraus, the institute's president. "Ultimately, paying these huge tort taxes every year makes us less competitive in the world economy."

The reason for the heavy burden of litigation is that the US tort system differs from those of almost all other common-law jurisdictions in the world in two key respects.

First, the US system allows the plaintiff's lawyers to work on a contingency fee basis, collecting nothing if they lose but taking a big chunk of the damages – usually a third to a half – if they win. Second, the loser of a civil action does not pay the winner's costs.

Contingency fees and the lack of the loser-pays principle are defended by trial lawyers and consumer organisations because they are regarded as the key to the courthouse door for people of modest means, enabling them to do battle with big corporations and other powerful defendants without risking potentially ruinous costs.

"In some sense, I think the US tort system is the envy of the world," says Erian Wolfman, a staff lawyer with the Public Citizen Litigation Group, a consumer advocacy organisation. "Obviously the business community isn't going to agree with that, but the contingency fee system in individual litigation makes it possible for ordinary citizens to use the legal system, and that has given the US the world's safest products, among other things."

The downside of the US system, and the reason it has not been more widely adopted elsewhere, is that it provides lawyers with a strong incentive to engage in speculative litigation because the big rewards brought by the occasional victory outweigh the cost of losing other cases.

Businesses and consumer groups agree that the worst excesses of the system occur in cases where lawyers bring class-action lawsuits on behalf of large numbers of people in a similar category, then reach settlements that deliver multi-million-dollar fees to the lawyers and little or nothing to the claimants.

Last year, for example, the husband-and-wife legal team of Stanley and Susan Rosenblatt sued tobacco companies on behalf of non-smoking flight attendants, who claimed they had been made ill by second-hand smoke. The tobacco companies vigorously denied the claims: but fearful of losing, they agreed to settle the case by paying the Rosenblatts $49m and setting up a $300m medical foundation. The flight attendants received nothing.

Traditionally, big companies could counter the threat of litigation with their sheer staying power, wearing down their opponents with their vast financial and legal resources. But according to George Priest, professor of law and economics at Yale Law School, that has changed over the past 30 years as US courts have expanded the standards of liability and increased the grounds on which individuals can bring legal actions.

Prof Priest says this has happened partly in the hope that it will encourage companies to avoid behaviour that causes injury, and partly to provide compensation for injured people who may not have private insurance.

To this extent, the US tort system has become a means of securing social objectives that other countries achieve through government policy and regulation. "It's a cheap way of getting national health insurance," says Prof Priest. "That's the basic theory. But it hasn't worked out, for a number of reasons.

"One of them is that the insurance benefits provided by the legal system are vastly greater than those provided by any insurance system in the world, even in Sweden. Another is that there are very substantial transaction costs – the attorneys' fees – that are far in excess of what any insurance company would ever get away with charging, whether nationalised or in a competitive industry."

As the courts have become more permissive, trial lawyers who reaped large fees from the asbestos litigation that started in the 1970s have become emboldened to take on tougher targets.

Significantly, they have also begun to exploit economies of scale. Plaintiffs' lawyers are banding together and pooling costs to take on bigger companies or entire industries. Dow Corning and the tobacco companies are examples. And changes in the rules that used to restrict advertising have enabled them to solicit aggressively for clients, allowing them to spread their costs over a large number of claimants with a common cause.

By reducing their cost base, lawyers have been able to take on ever greater risks. In the case of breast implant litigation, they may well have lost most cases: but if they had won only 5-10 per cent of the 19,000 trials, winnings of $5m to $25m a time would have delivered more than $20bn in damages, yielding fees of $7bn to $10bn.

This is the calculation that all US companies are now having to make when on the receiving end of litigation. Juries are unpredictable, particularly where complex scientific issues are involved, and if plaintiffs can gamble on winning even just a small percentage of cases, it can make more sense for defendants to settle than to fight, regardless of the justice of the cause.

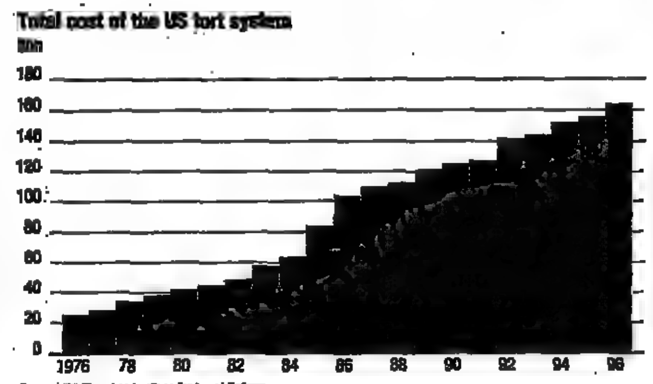
Until recently, for example, US tobacco companies had a record of never having paid a penny in damages: juries had always taken the view that everyone knew the risks of smoking, and accepted them if they took up the habit.

But now, as trial lawyers have adopted new lines of attack in tobacco litigation, even the cash-rich tobacco companies have started wilting under the bombardment. Last year they offered to pay an astounding $368.5bn over 25 years to settle the big lawsuits pending against them, but the offer was rejected by Congress as inadequate. They have since agreed to pay more than $36bn over 25 years to settle some of the cases, and are negotiating to settle the rest.

Now the big question is: who's next? "Once they have finished off tobacco, one assumes that they will look for other victims. The alcoholic beverage industry seems the most obvious candidate," says Prof Brickman. Others have only half-jokingly suggested the junk-food industry, which could be accused of contributing to obesity, heart disease and other health risks.

Mr Kraus of the US Chamber of Institute for Legal Reform bets that one of the biggest areas of litigation will be the year 2000 problem, as everyone suffering loss or inconvenience as a result of computer error sues whoever they perceive as responsible. "The potential liabilities will be just a heyday for the trial lawyers. The suits will go everywhere," he predicts.

Total cost of the US tort system



Source: US Chamber Institute for Legal Reform

OBSERVER

Sharing the pain

US deputy secretary of state Strobe Talbott will be received in surroundings which mirror Pakistan's economic difficulties when he drops in for a visit next week. The office of prime minister Nawaz Sharif in Islamabad has taken a step downmarket.

Sharif, keen to set an example of self-denial in these times of international sanctions and general Asian collapse, is trying to sell the $21m prime ministerial office complex which was built to celebrate Pakistan's 50th anniversary as a nation last year. He has moved with his retinue into more austere accommodation.

The palatial seven-story complex now up for sale might sound like a prime investment: there are 12 acres of grounds, 372 rooms, 113 washrooms and – to make sure the bureaucrats don't go hungry – 29 kitchens. It's handsome, too, finished with Mogul-style turrets.

In other capital cities, it would be easy to turn it into lavish offices or a snooty hotel. But Islamabad is not a big corporate centre, nor does it have the setting to become a high-flying tourist destination.

The government is trying hard to talk the price up – "a unique opportunity for the discerning investor to purchase one of Pakistan's most prestigious properties" – but the sale isn't likely to contribute much to the millions Pakistan must find to avoid defaulting on its foreign debt.

Sharif could turn the building into a hospital or a university, both of which are much needed in his impoverished country. But poor people might hang around such places and cynics say that Pakistan's elite – which frequents the nearby parliament – is uncomfortable when it meets the less fortunate. Sharing in austerity is all very well, but it seems there are limits.

Boomerang bill

When he was just a humble MP, Bangkok's mayor Bichit Rattakul was noted for encouraging his constituents to stand up for themselves when city officials tried to kick them around. He might now be regretting taking just that line when a constituent came to see him 10 years ago.

Construction of a water pumping station had caused the man's house to collapse into a canal, so Bichit found him a lawyer to sue the city, then-mayor Chamlong Srimuang and the director of the sewage department, Sant Trachoo.

A court has now ruled in favour of the homeowner. But Chamlong is leading a monastic life in the jungles of western Thailand and Sant is dead. So cash-strapped Bangkok will have to find the damages.

Longhorn sally

It seems the Chicago skyline is in for a change. Hundreds of trees may get the chop to stop the spread of *anaplophora glabripennis* – the Asian longhorn beetle – thousands of which have turned up in the city's north side.

It's particularly unfortunate for the Windy City's mayor Richard Daley, who broke the bad news about the beetles yesterday. Daley has a reputation as a tree-lover – developers know they have to provide plenty of foliage if their plans are to stand a chance of getting through City Hall.

The longhorn beetle, which is unattractive even by creepie-crawlie standards, is a native of northern Asia and has appeared only once before in the US: in Brooklyn, where there were similar consequences for the local trees.

So Chicagoans watching the branches fall can at least choose either of their favourite scapegoats – as with so many of life's misfortunes, it's all the fault of foreigners or New Yorkers.

Hard sell

Sally Aw is nothing if not persistent. The Hong Kong tycoon is trying again to find a buyer for Sing Tao, the holding company for her media empire.

After last month's last-minute failure to clinch a deal with Mingly Corporation, the property developer controlled by pro-Beijing businessman Cha Chi-ming, Aw has stepped up her sales pitch to sell all or part of the family firm, founded 60 years ago by her late father, Aw Boon-haw, aka the Tiger Balm king. Trading in Sing Tao shares has been heavy over the past few days ahead of a statement yesterday confirming talks are in progress.

But investors shouldn't hold their breath. Hong Kong's recession, the collapse of the Mingly sale and a pending fraud case involving one of Sing Tao's flagship newspapers may deter suitors. No news is good news, as they say.

Siren call

It's not easy to take over as president when your country is in a real humdinger of an economic mess. So who can blame Philippine leader Joseph Estrada – who says the backwash of the Asian crisis gives him a headache – from turning his attention to law and order?

The former film star – who turned up for work on his first day at a relaxed 3pm – has hit the ground running, and immediately tackled one of the big issues. Henceforth, he has decreed, it will be an offence for self-important politicians and VIPs to use sirens to cut a swathe through Manila's traffic jams.

"These practices are repugnant to a democratic society whose citizens are equal before the law," growls the burly president. The directive applies to everyone. Apart, that is, from himself, his deputy, and three other top officials. After all, equality can't be taken to extremes.

Financial Times 50 years ago

Firm Line in Italy

Rome, July 16. Following the end of the 36-hour protest strike by 7,000,000 workers, Italian Premier Alcide de Gasperi today called for new anti-strike laws and resistance to "every attempt at dictatorship". He announced early legislation to limit the trade unions' right to strike. The order for the return to work was issued by the Communist-led Confederation of Labour, after conciliation talks with the Government. While the Ministry of the Interior declared that the return to work was general, violence and disorders were again reported from many parts of the country.

Power Cut in Berlin

The British authorities in Berlin yesterday ordered a complete stoppage of the use of electricity for industrial purposes except where permission had been obtained from the British military Government. At the same time, vehicles carrying foodstuffs and coal were ordered not to leave the Western sectors of Berlin in a directive issued by the three Western Military Governors. The order follows the recent "freezing" of food stocks in the Western sectors to prevent them from draining away into the surrounding Soviet territory.

FINANCIAL TIMES
FRIDAY JULY 17 1998

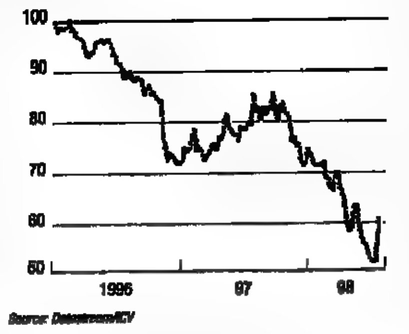
THE LEX COLUMN

Siemens sea-change

Has such a horrendous profit warning ever been so munificently rewarded? For Siemens shares to rise 17 per cent on news of worsening losses in semiconductors and missed annual profits targets looks perverse. What rescued the day was a hastily cobbled together 10-point programme to improve profitability. This has raised long-subdued hopes of change at this conservative, unfocused and underperforming conglomerate. Siemens has long been near the top of Germany's long list of restructuring plays. But with its shares lagging behind the German market by nearly 30 per cent since 1997, few investors were betting on action – before yesterday.

Even now, it is hard to feel confident that the present management under chief executive Heinrich von Pierer is the best one to take Siemens forward. True, the plan makes the right sort of noises. Seeking share buy-back approval heralds the tightening-up of an inefficient balance sheet. And hastening the move towards US accounting standards as a prelude to a listing could open the way to DaimlerChrysler-style share deals.

But will management be prepared to act radically enough, particularly when it comes to overhauling the group's structure? Mr von Pierer has not staked his job on it, as a US manager might have done. Past financial targets, after all, have slipped unlamented, and this plan is thin on detail. So if investors are to be rewarded for abandoning all scepticism, Siemens must do more than just repeat the mantras of shareholder value. It must apply them too.



WorldCom

WorldCom seems to be proving the sceptics wrong, including this column. Its shares have risen 80 per cent this year and once it completes its MCI takeover the enlarged group will have a market value of over $100bn – bigger than AT&T's.

Investors are betting WorldCom is the future of telecommunications. There is something to this. By rapid acquisition, the group has put together an enviable collection of assets. It spans both local and long-distance services and remains the world's leading internet backbone, despite this week's disposal. WorldCom is building a European network, while MCI brings strength in Latin America. If the group's entrepreneurial management can make all these parts sing in harmony, it should unlock spectacular growth.

But the market may have run ahead of itself – by simply applying WorldCom's racy rating to the more slowly-growing MCI. The combined group's multiple of 28 times expected 1999 earnings is closer to old WorldCom's 40 times than MCI's pre-bid 14 times. Yet the new group's estimated 15 per cent revenue growth will be nearer MCI's 10 per cent than WorldCom's 30 per cent. Admittedly, profits should grow faster for a time as synergies come through. Yet this swift rerating assumes they are already in the bag. It also ignores threats of increased competition once the Baby Bells enter long-distance – and the risk that a bigger, slower WorldCom will be overhauled by tomorrow's hungry start-ups.

Cable and Wireless

Cable and Wireless used to refer to its "string of pearls" strategy. Dick Brown, chief executive, prefers stringing deals. His latest looks compelling. C&W is paying a good price - 2.7 times forecast sales, compared with the more usual three to five times - for a place at the internet top table. By buying one of the four main US internet highways, C&W is gaining access to fast-growing revenues. There will also be synergies with its internet business outside the US.

C&W is still far from the top league of US telecoms operators. But this acquisition could be a useful stepping stone. C&W's puny US telecoms business will have an extra product - the internet - to sell. And C&W will use the new internet backbone to carry voice traffic. C&W has also inherited a strong list of corporate customers from MCI.

But C&W cannot stop there. It will need to strengthen its brand and broaden its range of services to hang on to its customers – let alone increase their number to the level needed to generate decent returns. The extra traffic with this deal should make it more economic for C&W to build its own telecoms network and increase its appeal as an alliance partner.

Investors want to believe so and, in their hunger for telecoms exposure, backed C&W's £887m share placing with barely a blink. C&W did not really need to use paper. But it means Mr Brown still has flexibility to do the next deal.

Reits

For three years investors have been piling into US real estate investment trusts – both to ride the upswing in the property market and profit from an acquisition spree fuelled by their inherent tax advantages. The high point came last November, when Starwood Hotels, one of the most aggressive, spent $10bn outbidding Hilton for ITT.

But this year, reits have gone badly wrong. Starwood's shares have fallen 17 per cent in 1998 and the sector has underperformed the stock market by 20 per cent. Investors are fretting about an overheating property market and the fact that their own enthusiasm had driven reit stocks to an average 20 per cent premium to net assets. The industry has not helped itself by cashing in on the boom: reits raised $27bn of fresh equity in 1997, three times as much as in 1996. Concern that so-called paired share reits, including Starwood, will lose their tax privileges has contributed to poor sentiment.

Operationally, however, most reits are performing well. Rental growth remains strong and interest rates low. Last year's 25 per cent total return may be unrepeatable. But with 8-10 per cent annual cash flow growth, a 6 per cent dividend yield and minimal overseas exposure, this looks like an attractive sector in volatile times.

MARKETS AND BUSINESS WELCOME FISCAL HARDLINER'S DECISION TO JOIN CONTEST

Kajiyama declares his candidacy for Japan PM

By Michiyo Nakamoto in Tokyo

Seiroku Kajiyama, who backs strong fiscal measures to boost the Japanese economy, yesterday entered the race to become the country's next prime minister.

His declaration boosted Tokyo share prices while the yen strengthened against the US dollar.

Mr Kajiyama, a former chief cabinet secretary, is a harsh critic of Ryutaro Hashimoto, who is stepping down as prime minister after the ruling Liberal Democratic party's dismal showing in elections at the weekend.

The markets and business welcomed Mr Kajiyama's candidacy. The yen ended the day's trading in Tokyo at Y139.71 to the US dollar against Y140.70 earlier in the day. The Nikkei 225 stock market index reversed a fall and closed up 117.78 points at 16,731.92, while the benchmark September Japanese Government Bond contract fell to 131.45.

Mr Kajiyama has called for a quick resolution to Japan's banking sector problems and for tax cuts to stimulate the economy.

He is regarded as a strong political leader with the right prescriptions for Japan's troubled economy, which is in recession.

Mr Kajiyama's main rival for the job of LDP president is likely to be Keizo Obuchi, the foreign minister and leader of the biggest faction within the party.

The LDP president automatically becomes prime minister because the party dominates the powerful lower house of parliament which will elect the new prime minister this month.

Mr Kajiyama's decision to challenge Mr Obuchi, who declared his candidacy on Wednesday, has given the battle to become Japan's new prime minister an unexpected turn and thrown the party into disarray.

The LDP had hoped a consensus candidate would emerge so as to avoid a damaging contest. But Mr Kajiyama's candidacy has forced it to put back the election for party president to July 24.

Mr Kajiyama draws his support from a growing number of LDP MPs alarmed by the foreign media criticism of Mr Obuchi and the public outcry against the party's backroom manoeuvring to produce the next prime minister.

"Obuchi is a great man. But in order to make a breakthrough from the current situation, we need Kajiyama," Yoshinobu Shimamura, minister of agriculture, forestry and fisheries said yesterday.

But Mr Obuchi, who is backed by Noboru Takeshita, a former prime minister who wields tremendous behind-the-scenes influence in the LDP, still has the edge over his rival.

Time to print money, Page 14
Currencies, Page 27

Enron wins auction for Elektro with $1.27bn bid

US energy group pays highest premium ever seen in Brazil privatisation

By Geoff Dyer in São Paulo

Enron, the US energy group, yesterday offered R$1.48bn (US$1.27bn) for Elektro, an electricity distribution company in the state of São Paulo, providing a huge boost to Brazil's privatisation programme.

The winning bid was nearly double the minimum price established for the auction at the São Paulo stock exchange, making it the highest premium ever seen in a privatisation in Brazil. Four other consortia took part in the hotly contested auction.

Analysts said the price, which was well above expectations, was in line with the levels companies were prepared to pay for Brazilian electricity assets before the Asian crisis. Elektro is the 15th electricity distribution company to be sold.

The success of the auction will partially allay fears about the availability of finance for large privatisations in Brazil as a result of the Asian crisis and its impact on confidence in emerging markets. It was also a great relief for the São Paulo state government which had been forced to delay the sale of Elektro for four months and which in April failed to get a buyer for Bandeirantes, another electricity distribution company.

"The result shows that we are now in a much more positive scenario," said Geraldo Alckmin, the acting governor.

He would not say if Bandeirantes would be put up for sale again and said the company could be transferred to the federal government as part of an agreement to refinance the state government's debts.

Over the next few months Brazil hopes to sell Telebrás, the telecoms group, and to begin the privatisation of its huge electricity generation network.

Diomedes Christodoulou, director of Enron in Brazil, said the group had been willing to pay such a high price for Elektro because "it is one of the most efficient electricity companies in Brazil and will require few changes".

Enron is to invest US$70m-90m a year in Elektro over the next five years.

Mr Christodoulou said Enron would also look closely at the generation companies and at Comgas, the São Paulo gas company which is due to be privatised this year. Experience in the US had shown the similarities between electricity and gas distribution, he said.

Enron, which has operations in 30 countries, has already invested US$700m in Brazil, including stakes in the Bolivia-Brazil gas pipeline and in a gas distribution company in Rio de Janeiro.

"Brazil is one of the most important markets in the world for Enron," Mr Christodoulou said.

Enron bought 90 per cent of the voting shares in Elektro, which was owned by CESP, the state-controlled power generation company. All proceeds from the sale will go to reduce CESP's debt.

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South African president Nelson Mandela cuts a cake at a party with 1,000 foster children as part of celebrations for his 80th birthday tomorrow

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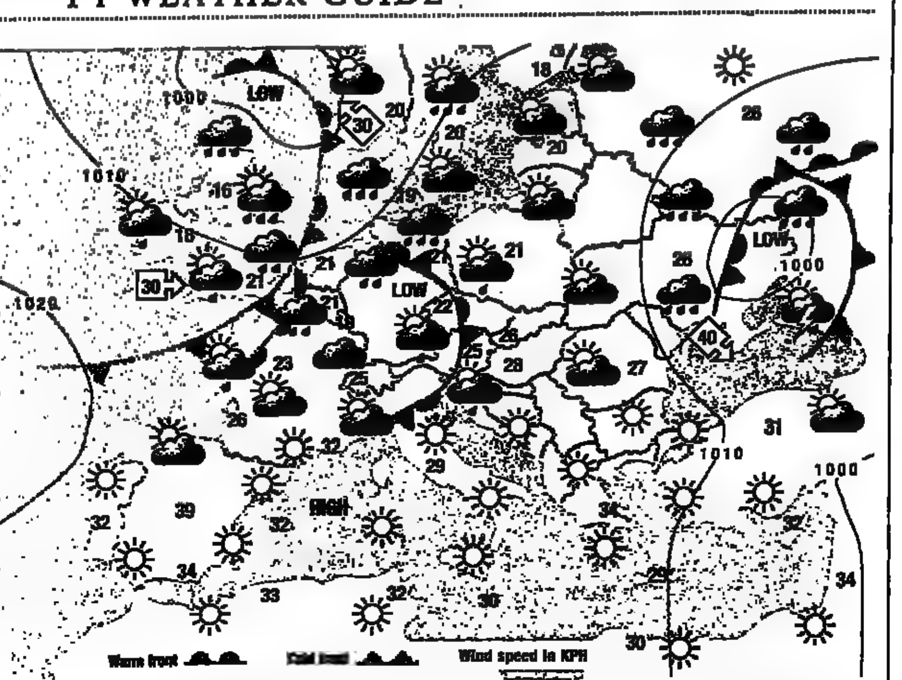
FT WEATHER GUIDE

Europe today

Norway, Sweden and Denmark will have rain in the west and sunshine and showers elsewhere. Finland and north-western Russia will have a largely dry day with sunny spells. From the eastern Baltic states to the Black Sea there will be heavy rain and thunderstorms. Northern France, Germany and the Low Countries will be mainly cloudy with drizzly rain. All other areas south of a line from Bordeaux in France, across the Alps and through to Black Sea will be mainly sunny, dry and very warm to hot.

Five-day forecast

The northern half of Europe will continue unsettled, with periods of rain interspersed with sunshine and showers. Southern Europe will stay mainly sunny and very warm to hot, with temperatures of more than 100F over Spain. Western Europe will become unsettled by mid-week, while much of eastern Europe should become warmer and settled.



Situation at midday. Temperatures maximum for day. Forecasts by "PA" WEATHERCENTRE

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	41
Accra	Fair	27
Algiers	Sun	32
Amsterdam	Rain	21
Athens	Sun	34
Atlanta	Thunder	34
B. Aires	Fair	19
B.ham	Shower	19
Bangkok	Shower	34
Barcelona	Sun	30
Beijing	Shower	33
Belfast	Shower	16
Belgrade	Fair	27
Berlin	Shower	21
Bermuda	Fair	28
Bogota	Shower	18
Bombay	Shower	32
Brussels	Shower	21
Budapest	Fair	26
C.hagen	Shower	19
Cairo	Sun	37
Caracas	Fair	32
Cardiff	Shower	19
Casablanca	Sun	27
Chicago	Sun	27
Cologne	Shower	22
Dakar	Sun	29
Dallas	Sun	36
Delhi	Shower	33
Dubai	Sun	41
Dublin	Shower	18
Dubrovnik	Sun	29
Edinburgh	Shower	18
Faro	Sun	30
Frankfurt	Shower	22
Geneva	Fair	25
Gibraltar	Sun	28
Glasgow	Shower	16
Hamburg	Shower	20
Helsinki	Shower	18
Hong Kong	Fair	32
Honolulu	Fair	30
Istanbul	Fair	29
Jakarta	Fair	32
Jersey	Cloudy	18
Johannesburg	Sun	18
Karachi	Fair	34
Kuwait	Sun	48
L. Angeles	Fair	30
Las Palmas	Sun	27
Lima	Cloudy	21
Lisbon	Sun	32
London	Shower	21
Lux.bourg	Rain	19
Lyon	Fair	27
Madeira	Sun	26
Madrid	Sun	39
Majorca	Sun	32
Malta	Sun	30
Manchester	Shower	18
Manila	Shower	35
Melbourne	Fair	14
Mexico City	Shower	25
Miami	Thunder	33
Milan	Fair	30
Montreal	Thunder	29
Moscow	Rain	26
Munich	Shower	22
Nairobi	Fair	21
Naples	Sun	31
Nassau	Fair	33
New York	Thunder	30
Nice	Sun	27
Nicosia	Sun	32
Oslo	Shower	20
Paris	Shower	23
Perth	Fair	19
Prague	Fair	22
Rangoon	Shower	31
Reykjavik	Cloudy	14
Rio	Fair	22
Rome	Sun	29
S. Frsco	Sun	28
Seoul	Sun	29
Singapore	Shower	32
Stockholm	Shower	20
Strasbourg	Shower	22
Sydney	Fair	17
Tangier	Sun	31
Tel Aviv	Sun	34
Tokyo	Shower	27
Toronto	Fair	29
Vancouver	Fair	25
Venice	Sun	28
Vienna	Shower	25
Warsaw	Shower	21
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FINANCIAL TIMES
COMPANIES & MARKETS
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INSIDE

Novartis sales slow in first half
Novartis, the Swiss pharmaceutical company, confirmed the slowdown in its growth with a 1 per cent rise in first-half sales to SFr16.8bn ($11bn). It said it expected sales to "gradually accelerate" in the second half. US revenues were affected by wholesalers reducing inventories. Page 18

All eyes on speedy aluminium ferry
Aluminium groups and shipping companies will be closely monitoring a fast new cargo ferry, scheduled to go into operation soon. The ferry, made entirely from aluminium, is capable of carrying 40 big trucks at 43 knots, nearly three times the speed of average roll-on, roll-off vessels. Page 28

Fiat chief quashes merger rumours

Paolo Fresco, the new chairman of Fiat, has dismissed speculation that the Italian automotive group was in merger talks with BMW of Germany. He said Fiat had "the men, the strategy and the products to survive on its own". Mr Fresco (left), the former deputy chairman of General Electric of the US, also dismissed suggestions he had been brought into Fiat "to sell the company", insisting his track record at GE was one of growth and expansion, not of sales and disposals. Page 18

Gemstar rejects United Video bid
Gemstar, a pioneering US television technology company, has rejected a hostile bid from United Video Satellite, saying the $2.8bn cash offer was too low. Gemstar also announced a new venture with NBC, the US broadcast network. Page 20

Strong results from US telecoms
SBC Communications and Ameritech, the two US local telephone carriers which last month announced a $61bn merger, topped Wall Street expectations with double-digit earnings increases for the second quarter. Page 20

Mitsubishi Motors to cut 2,000 jobs
Mitsubishi Motors, the Japanese car group, has stepped up plans to reduce costs by cutting 2,000 jobs. The company plans to cut the number of white-collar employees from 14,000 to 12,000 by March 1999, a year ahead of schedule. Page 22

Alcan wins control of Indian group
Alcan of Canada, the world's second largest aluminium group, has emerged victorious from an acrimonious battle for control of Indian Aluminium, but there remains a suspicion that it paid too much to keep its grip on the company. Page 20

Copper price rise cheers Chile
Optimism has returned to the Santiago stock market following a rise in copper prices and signs that the peso may be stabilising. Copper is Chile's biggest export earner, accounting for about 40 per cent of revenues. Page 38

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Shell, Mobil drop Peru project

Companies fail to agree with government

By Sally Bowen in Lima

Royal Dutch/Shell and Mobil yesterday said they would not proceed with their projected $2.5bn development of Camisea, the large jungle hydrocarbons deposit in Peru, after they failed to agree terms with the government for distributing the gas.

Alan Hunt, general manager of Shell's Peruvian operation, said the company was greatly disappointed. "We regret that it was not possible to resolve issues that *prevent the progression* of the project at the current time." Shell said it *regretted not being able to* commit itself to the project by yesterday's deadline.

Jorge Baca, Peru's new economy and finance minister, confirmed the consortium's decision, which is likely to damage Peru's investor-friendly image. He said the decision would have "no impact" on the Peruvian economy, already battered by the El Niño weather phenomenon and the Asian *crisis. He added that the government* would "proceed immediately to take the necessary *measures to* make the project viable, in the shortest term possible".

According to Mr Baca, Peru's largest investment project will be divided into three *stages – extraction of natural* gas and liquids from the jungle site, construction of a 500km trans-Andean pipeline and distribution on the Peruvian coast.

"That will mean three *investments of about* $1bn each," he said, predicting that many international oil companies *would see this as "a great* opportunity".

Shell and Mobil have invested $250m in the exploration phase of Camisea since signing a licence agreement in May 1996, which president Alberto Fujimori described as "the contract of the century" *at the time.*

Earlier this year the companies were granted a 60-day extension to the original deadline on whether to proceed with the second phase.

The consortium was to pipe about 500m cubic feet of gas a day to Lima, providing industry with a low-cost energy *source and reducing the capital's* energy bill.

Camisea contains 11,000bn cubic feet of dry gas and 600m barrels of condensates, equivalent to seven times Peru's current oil reserves and enough to guarantee industrial development and clean energy for a century. Shell was also exploring with other investors the possibility of a $3bn petrochemicals complex on the Peruvian coast.

The project foundered on the commercial side because of the lack of a viable market for Camisea's gas and the absence of a coherent national energy policy. Additional questions *about pricing policy and tariff* structures in the power sector were enough to decide against *a final investment commitment.*

The technical aspects of the *project are also challenging.* Large volumes of gas and liquids have to be extracted from virgin rainforest *without damaging* the environment and transported over the 4,000m Andean range to the coast.

Coca-Cola profits fall despite volume growth

By Richard Tomkins in New York

Net profits at Coca-Cola, the US soft drinks group, tumbled *9 per cent to $1.2bn in the second* quarter as the company's earnings continued to take a *pummelling from the strong* dollar.

But the decline was slightly *smaller than expected* and stood in sharp contrast to the company's underlying growth. The volume of drinks sold during the quarter rose by 10 per cent worldwide, Coca-Cola said.

Last month Coca-Cola told analysts it expected volumes to increase by 9-10 per cent this year, but earnings would fall because of the strong dollar and Asia's economic crisis. Yesterday, the company reported that in spite of its 10 per cent volume growth in the second quarter, revenues rose by only 1 per cent to $5.2bn when translated into US dollars.

Coca-Cola earns more than two-thirds of its revenues from outside the US; the company said that in the second quarter, the US dollar had been about 10 per cent higher against a weighted basket of foreign currencies than in the year-earlier period.

Operating profits rose by 5 per cent to $15bn, with increased spending on marketing adding to the impact of the strong dollar. Earnings per share were 48 cents, slightly ahead of the 47 cents consensus forecast.

In early trading, Coca-Cola's shares were down $1⅛ at $86¾ as investors took profits. The shares have gained more than 20 per cent in the past few weeks as investors have poured money into "safe haven" blue chip stocks.

*One factor boosting Coca-*Cola's underlying growth has been its continuing success in taking market share in the US and worldwide from PepsiCo, US maker of Pepsi-Cola and other soft drinks.

Last week, PepsiCo's stock was hit by data for the US market showing that in June PepsiCo's US beverage volume *rose* by 1.6 per cent while Coca-Cola's rose by 6 per cent.

Yesterday, Coca-Cola said North American volumes rose by 8 per cent in the second quarter, including an 8 per cent gain in the US.

Siemens shares rise 17% over shake-up proposal

By Frederick Stüdemann in The Hague

Shares in Siemens jumped yesterday when the German industrial group announced a 10-point restructuring programme including the sale or separate listing of low-performing units and a commitment to improving return on capital.

It also said it planned a New York Stock Exchange listing *and said it would move to US* GAAP accounting standards.

Heinrich von Pierer, chairman, identified problem areas in the group's sprawling portfolio, including semiconductors, transportation, mobile telephony and power generation. But the plan did not specify which parts of the conglomerate might be disposed of.

Siemens has been under pressure from investors to simplify its structure after years in which some key businesses, including mobile telephones and computer chips, have been outperformed by rivals. It has also been hit by poor market conditions in other operations.

Investors welcomed the restructuring plan, driving the shares up more than 17 per cent to close at DM130. But Mr von Pierer warned the company would not meet its original target of increasing net income faster than sales this year. He said net profits this year would be "a tick above" last year's DM2.6bn ($1.4bn) but significantly below earlier forecasts of DM3bn. Siemens yesterday reported net income increased 5 per cent to DM1.76bn in the first nine *months of its business year,* while sales rose 15 per cent to DM81.9bn.

The announcement was followed by news of a downgrade by Standard & Poor's, the rating agency, which lowered its credit rating for Siemens to AA from AA+, and placed the company on negative outlook.

The agency said Siemens' results revealed a broadening gap between profitability and sales, with some operations performing "well below" S&P's expectations.

"Profitability and cashflow could be reduced by substantial additional restructuring and related charges," *it said.*

Analysts cautioned that the restructuring plan lacked detail. "There is nothing about a fundamental overhaul of the portfolio or a head count reduction," said Mark Davies-Jones from Salomon Smith Barney.

"None of these measures are going to be active until the *back end of 2000.* The question is whether it will enough to carry them through a very nasty trading period," *he said.*

Mr von Pierer said the semiconductor manufacturing business, which has been hit by extreme price falls, was a particular worry. He said the division would make losses of around DM1bn in the current 1997/98 business year which runs to the end of September.

"Our Asian competitors are continuing with their suicidal pricing strategy," he said.

Heinz-Joachim Neubürger, chief financial officer, said Siemens had increased its risk provisions *for Asia* from DM300m to DM500m and indicated that this might be revised further upwards in the future.

Lex, Page 16

Daimler-Benz aims small

Drive into lower end of market

By Haig Simonian in Barcelona

Daimler-Benz, the German industrial group taking over *Chrysler of the US, intends to* expand its fledgling Smart small car brand in its attack on the lower end of the car market.

The plans could include using small car products being developed by Chrysler to accelerate the growth of Micro Compact Car, the company set up to make the Smart car. Such a move would represent one the earliest benefits to emerge from the Daimler-*Chrysler* merger announced in May.

Jürgen Hubbert, Daimler-Benz's head of passenger cars, said at the launch of Smart's diminutive City Coupe model in Barcelona yesterday that recent Chrysler concept cars, such as the small Jeep Jeepster or the Pronto convertible, would suit Smart's image.

Daimler-Benz wants to expand Smart to recoup its investment of more than DM1bn ($554m), undertaken with Switzerland's SMH group, which makes Swatch watches. Chances of a return on Smart's first model, a tiny two-seater going on sale in October, receded after the need for costly engineering changes *last year, delaying the launch* by six months.

"No one can build a new brand based on just one product. We will develop the brand further," said Mr Hubbert. Daimler-Benz executives *believe* they need a second brand to push group sales beyond 1-1.2m units a year – the level at which the core Mercedes-Benz marque would start to be debased.

They see a niche for cars costing up to DM32,000, ($17,679.50) the base price for Mercedes-Benz's cheapest new A Class. Prices for Smart's *City Coupe start at about* DM16,000, ($8,839.70) leaving room for variants and further models.

A diesel and a soft-top versions of the City Coupe are already planned. Daimler-Benz *has also hinted at a small con*vertible to rival cars like Mazda's MX5.

However, Smart could be expanded further – and faster – by dipping into Chrysler's portfolio. The US company has a strong reputation for innovative and publicity-generating concept cars, few of which ever go into production.

Lars Brorsen, MCC's chief executive, said 80 per cent of the planned 110 special showrooms, or *"Smart centres",* would be open by October. An official "pre-sales" campaign starting last Friday at the *already completed showrooms* generated 2,000 signed contracts, he said.

Mr Brorsen said that while half the purchasers had come from the 23,000 people who had already signed non-binding agreements before the sales delay, the rest were new customers.

MCC expects to sell 20,000 *cars this year,* with the possibility to push production at its new factory in France to 25,000 *if demand warrants.* The company hopes to reach its annual production ceiling of 200,000 cars a year by 2001.

Growing baby: Daimler-Benz is planning to strengthen its Smart car brand Picture AP

Matif-DTB talks on derivatives alliance falter

By Edward Luce and Vincent Boland

Talks between Matif, France's derivatives exchange, and the Deutsche Terminbörse to set up a "euro-alliance" that would dominate Europe's derivatives industry have almost ground to a halt.

Last week's agreement between the London Stock Exchange and the Deutsche *Borse to set up a* pan-European equity trading platform has soured matters further.

Officials in Paris are "bitter" about being excluded from the deal, particularly over German suggestions that the French bourse should take a 20 per cent stake in the venture leaving London and Frankfurt with 40 per cent each.

"France can defend its local equity stocks for some time *regardless of whether it joins* the London-Frankfurt trading platform," said Brian Kaye, director-general of Fimat, one of France's largest brokerage houses. "On derivatives, however. Matif is looking increasingly exposed."

Investment bankers say Matif, which has lost 37 per cent of its average daily turnover since January and now trades at just 20 per cent the volume of the DTB, is in danger of being cut out of the euro-alliance.

Officially both the DTB and Matif say talks between the two are on schedule and cross-membership between the exchanges should be in place by September.

However, it is understood that relations are increasingly strained. Tension has been exacerbated not least because both the DTB and Matif are owned by their respective stock exchanges.

Although the French equity market is big and liquid enough to survive on its own for the time being – it has more listed companies than Frankfurt but its market capitalisation is slightly lower – it will be forced to consider a link with the pan-European market sooner or later.

"France will not stand alone. It will have to be integrated as quickly as possible," said Paul Horne, *European equity* market economist at Salomon Smith Barney.

The Société des Bourses Françaises, which owns Matif, is pursuing an initiative with Citibank to create a European depository receipt market for emerging market companies seeking international listings. This would seek to challenge London's pre-eminence in this area.

But analysts say the SBF could soon find itself playing a junior role to other potential members of the London/Frankfurt alliance. One possible move is for the Amsterdam, *Brussels* and *Luxembourg* exchanges, which plan to have a common equity trading platform by the end of this year, to sign up for the pan-European market as a bloc rather than separately.

An official at the Amster*dam exchange yesterday con*firmed Dutch willingness to participate in the London-Frankfurt initiative.

AUTOMOTIVE INDUSTRY AFTER STRONG SALES GROWTH IN FIRST HALF, SWEDISH GROUP TO TAKE 10% STAKE IN GERMAN PRODUCER

Volvo and Deutz broaden engine alliance

By Greg McIvor in Stockholm and Tobias Buck in Bonn

Volvo yesterday announced plans to expand its diesel engine collaboration with Deutz, the German engines producer, as the Swedish automotive group announced better first-half profits than expected.

Underlying operating profits advanced from SKr3.95bn to SKr4.7bn ($585m), buoyed by strong sales growth in North America and Europe.

Pre-tax profits dipped from SKr7.9bn to SKr6.1bn, but were distorted by non-core asset sales and restructuring reserves. Volvo's most-traded B shares jumped SKr15 to SKr270.50.

Volvo said it was taking a 10 per cent stake in Deutz as part of a big extension of their co-operation in commercial diesel engines.

The two companies are to pool development of medium-size engines, with Deutz becoming Volvo's main supplier of these and small diesel engines. Volvo will concentrate on producing heavy duty diesel engines, which it will supply to Deutz.

The deal reflects Volvo's strategy of seeking strategic alliances with other automotive groups, to underpin its independence in an industry dominated by bigger corporations.

Volvo, which will pay about DM130m ($72m) for the Deutz stake, said the link would cut costs and overlap but declined to say by how much.

Anton Schneider, executive chairman of Deutz, said: "This is a very important step for Deutz. The agreement will be our entry into the business with European commercial vehicle makers."

He stressed there were no plans to sell more Deutz shares to the Swedish carmaker, and ruled out a takeover. "All parties involved in the deal are determined to preserve the independence of Deutz," he said.

Meanwhile, Leif Johansson, Volvo chief executive, refused to comment on prospects for further industrial collaboration with Volkswagen in the wake of his widely reported meeting with Ferdinand Piëch, the German group's chairman, last month.

Mr Johansson described Volvo's first-half results as "decent", in spite of a decline in the operating margin from 4.4 per cent to 3.5 per cent. Last year, he announced a long-term operating margin target of 5-7 per cent.

The company continued to experience problems in Asia, but these were more than offset by higher volumes in Europe and the US. Turnover rose from SKr89bn to SKr101.7bn.

Car sales rose from SKr48.2bn to SKr50.5bn, or from 196,250 units to 200,600 units. However, operating profits declined from SKr2.2bn to SKr1.8bn.

Volvo blamed the cost of launching its new S80 luxury saloon and higher marketing costs. It also lost 1,500 units of its C70 coupé in June due to a production problem.

Tuve Johannesson, president of the cars division, said the introduction of the S80 was on schedule and its favourable reception from the market indicated the car would be a "big success", selling a projected 100,000 units next year.

The trucks division more than doubled operating profits, from SKr688m to SKr1.4bn. Demand was particularly strong in North America, where deliveries increased by 51 per cent and margins rose.

Fresco rejects Fiat, BMW talks rumours

By Paul Betts in Turin

Paolo Fresco, the new chairman of Fiat, yesterday dismissed speculation that the Italian automotive group was in merger talks with BMW of Germany, saying it had "the men, the strategy and the products to survive on its own".

Mr Fresco also denied Fiat was involved in a joint bid for Kia, the South Korean car and truck manufacturer.

He also confirmed there had been no merger talks between the Agnellis, Fiat's leading shareholders, and the Quand family which controls BMW.

In his first public appearance in the new role, the former deputy chairman of General Electric of the US dismissed suggestions he had been brought into Fiat "to sell the company". If that had been the Agnellis' intention, "they could have addressed themselves to a merchant banker", he said.

He insisted his track record in his 37 years at GE was not one of sales and disposals but of growth and expansion.

Fiat, he said, was strong in the lower car market segment, which allowed the company to grow faster than others, especially in developing markets such as South America, India, China and Russia, where Fiat has concentrated its expansion in recent years.

"Clearly, if there were alliance opportunities we wouldn't sit back and watch at the window," he said.

But he stressed Fiat would consider any eventual partnership deals as a "protagonist", not as a sleeping partner.

Past attempts to merge with Ford Europe or Chrysler had not failed because the Agnelli family had been worried by seeing their interest in the business diluted. "The reasons these deals did not happen had nothing to do with Fiat's family company characteristics," he said.

There was nothing in his mandate restricting his actions to defend family interests. The Agnellis control about 30 per cent of Fiat.

"My mandate would be no different if I worked for a public company," he said.

While he had been impressed by what he had seen at Fiat, he conceded that the company's automotive profit margins were "ghastly".

"I think the car business in general has low profit margins. It's the nature of the business and an industry-wide problem," he said. The primary task was to improve these margins.

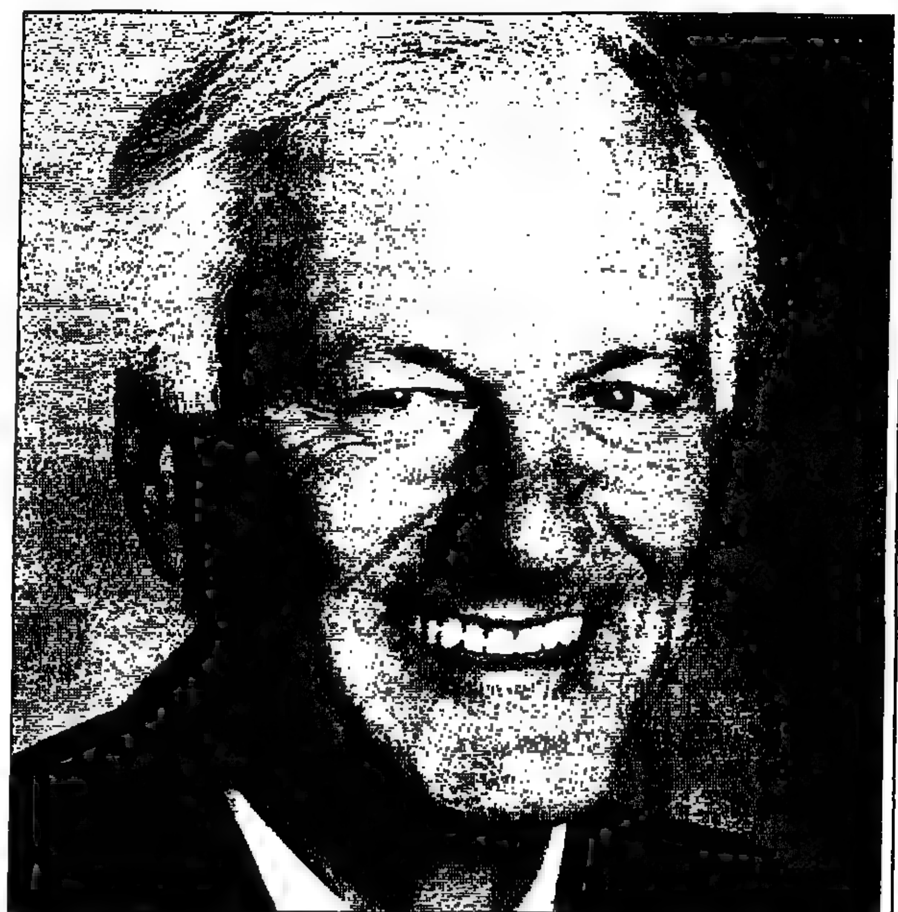
Fiat last year sold 2.8m cars and expects to sell a similar number this year in a more difficult market. Profit margins of the group's car operations were a dismal 0.1 per cent in the first quarter of this year.

"There is overcapacity in all manufacturing activities. The survivors will be those that introduce efficiency and better serve their customers," he said.

He also admitted Fiat was facing "a difficult period". The end this month of Italian government incentives to boost new car sales and the decline in Brazil in the first half of this year have put additional pressure on Fiat's car operations.

Fiat expects to report this year net profits similar to 1997's L3,000bn ($1.69bn), while group sales are seen at L94,000bn, against L90,000bn last year.

The company in recent months has virtually completed the disposal of non-strategic businesses, including the sale of Snia, the chemicals and bio-medical company.



Paolo Fresco: dismissed suggestions he had been brought in 'to sell' the automotive group

Entergy and Enel abandon power alliance

By Andrew Taylor, Utilities Correspondent

Enel, the Italian state electricity group, and Entergy of the US have abandoned plans to form a $3bn joint venture to compete in the European electricity markets, which are undergoing liberalisation.

Talks between the two groups ended after Entergy decided to retain full ownership of its two UK power stations, which it had expected to place in the joint venture.

There were also reports that Entergy was concerned about the possible high cost of upgrading Enel power plants placed in the venture. Enel would have contributed an equal amount of capacity from its existing Italian power station portfolio to create a combined capacity of about 5,000MW.

The initiative, one of four similar ventures being pursued by Enel, formed part of the group's strategy to reposition itself ahead of the introduction of competition in European Union power markets next year.

The joint venture, which initially would have operated in the UK and Italy, had plans to establish power businesses in other European countries.

Under an EU directive, member states must open at least 25 per cent of their electricity supply market to competition from next February, rising to at least 33 per cent by 2003.

Enel said yesterday its proposed power station joint ventures with ENI, the Italian oil and gas group, Enron, the US energy group, and turbine producer Fiat Avio would go ahead.

The Fiat deal agreed last month is intended to provide power to Fiat's manufacturing units in Italy and abroad.

Enel, which provided 63 per cent of Italy's power needs last year, said it was aware it had to decrease its share of the national generation market. Creating joint ventures was a better way of doing that than divesting generating assets, which would leave the company with substantial stranded costs.

Entergy, which is based in New Orleans, said yesterday that the decision to break off talks had been taken in agreement with Enel.

The US group said it had decided that it would be more competitive to retain 100 per cent ownership of its two UK gas-fired plants. The power stations under construction at Saltend near Hull and at Damhead Creek on the Thames estuary are expected to cost about £1.2bn ($1.9bn).

The UK government has announced plans to restrict future construction of gas-fired plant to assist coal sales.

NEWS DIGEST

SECURITIES

Greek brokerage to make Dr7bn public offering

Sigma Securities, the Greek brokerage house controlled by Bank of Piraeus, plans a Dr7bn ($23m) public offering in October to finance expansion in emerging markets in the Balkans.

Sigma would be the first Greek brokerage to be listed on the Athens stock exchange under legislation designed to deepen the capital market. The brokerage, valued at Dr3.5bn, is one of a handful of Greek brokers permitted to underwrite share issues. It has a market share of 9 per cent but claims to handle over 50 per cent of transactions on the bourse involving foreign investors.

John Marcopoulos, chief executive, said Sigma was considering an operation in Romania, which has the region's most active stock market. Bank of Piraeus, a private bank which acquired 51 per cent of Sigma last year, owns a profitable Albanian bank and is planning to expand in other Balkan countries.

Sigma's first-half turnover doubled to Dr4.5bn, with pre-tax profits jumping 120 per cent to Dr1.7bn. It has benefited this year from a surge in activity on the Athens bourse. Daily trading volume has doubled to about $170m as international institutions increased holdings of Greek shares following a 12 per cent devaluation of the drachma in March.
Kerin Hope, Athens

PORTUGAL

BCP climbs 54.2%

Banco Comercial Português, Portugal's biggest private-sector financial group, lifted first-half net consolidated profit by 54.2 per cent, to Es20.2bn ($109.5m), from Es13.1bn last year. Earnings per share rose from Es93.2 to Es118.5 in spite of capital increases in the intervening period. Total assets were up from Es5,622bn to Es6,024bn.

BCP said a decrease of 10 basis points in the net interest margin to 3.1 per cent was offset by a 22.2 per cent increase in the bank's loan portfolio to Es3,047bn, reflecting Portugal's strong economic growth and lower interest rates. This resulted in an increase in net interest income from Es71.9bn to Es76.1bn.

BCP's focus on cross-selling financial products throughout the group led to a 48.7 per cent increase in fee and commission income to Es28.9bn. This contributed to a fall in operating costs as a percentage of total income from 53.4 per cent to 48 per cent. **Peter Wise, Lisbon.**

SOFTWARE

Israeli group surges

Check Point Software Technologies, the Israeli manufacturer of network security products, yesterday reported a surge in revenues and net profits for the second quarter of this year, with enterprise security and virtual private networking driving growth.

Net revenues for the quarter jumped 90 per cent, from $18.27m during the same period last year to $34.27m. Net income was $19.18m, or 50 cents per diluted share, compared with $7.74m, or 20 cents a share over the same period in 1997. Results include a capital gain of $2.8m after Check Point acquired AbirNet, a high-tech company, for cash and stock.

The results will be welcome to Check Point, which in May saw its shares plummet from $41 a share to below $30. Markets reacted to a statement by Microsoft of the US, which challenged Check Point to "compete or to co-operate". The company has a two-year strategic partnership with Microsoft to provide a unified policy-based management for global networks running Microsoft Windows.
Judy Dempsey, Jerusalem

FOOD

Danone completes pasta pull-out

Danone, the French food group, yesterday said it was finalising its withdrawal from the pasta business, selling units with annual sales of FFr850m ($141m).

The move follows Danone's 1997 disposal of its French and Italian pasta units to concentrate on a core business of dairy products, biscuits and beverages.

Danone also said first-half revenues fell slightly, from FFr43.8bn last year to FFr43.2bn this year. The company attributed the decline in part to divestments, saying they trimmed sales by 8.3 per cent. The company will announce first-half earnings in September. **AP-DJ, Paris.**

FRENCH RETAIL

Thorn to close stores

Thorn, the UK rental group which earlier this month accepted a £980m ($1.6bn) bid from Nomura, is to close its Crazy George "rent-to-buy" stores in France. The two trial stores, which received a hostile reception from French welfare workers and politicians, will be closed by October. The company said that although initial hostility abated, trade had failed to take off. **Christopher Swann**

PROPERTY INVESTMENT

Dutch group sets dividend

Rodamco Retail Nederland, the Dutch property investment fund, said yesterday it had set the stock part of its 1997-98 cash-plus-stock dividend at one new share for every 51 already held. In June, the company announced it would pay a 1997-98 cash dividend of Fl 7.08 a share. Instead of taking the dividend fully in cash, shareholders could also opt for a payment of Fl 4.80 in cash plus a dividend in new Rodamco Retail shares.

Rodamco Retail's shares closed at Fl 112.10 on the Amsterdam Stock Exchange, slightly down on Wednesday's close. **Reuters, Amsterdam**

Fortis cuts stake in Lyonnaise to pay for SGB

By Robert Graham in Paris and Agencies

Fortis, the Dutch financial services group, said yesterday it had sold a large part of its stake in Suez Lyonnaise des Eaux, the French utilities group, for FFr4.8bn ($794m) to help pay for its recent acquisition of Belgium's Générale de Banque.

The move came amid a flurry of activity in the European financial services sector yesterday, with Suez Lyonnaise announcing the sale of a subsidiary and Assurances Générales de France, the insurer, sealing a Dutch acquisition.

Fortis said it had sold 4.2m shares and 7.2m contingent value rights. It said its stake in Suez Lyonnaise was recently increased by the exchange of its Société Générale de Belgique stake for Suez Lyonnaise des Eaux shares.

Fortis added that its earlier profit forecast for 1998 would not be affected by the realised capital gain, since this was already taken into account when its SGB shares were exchanged for Suez Lyonnaise des Eaux shares.

After yesterday's transaction, Fortis held some 2.1 per cent of Suez Lyonnaise and said it regarded the stake as a long-term strategic holding.

Meanwhile, Suez Lyonnaise announced the sale of a subsidiary, Crédisuez, to Comptoir des Entrepreneurs (CdE), owned 76 per cent by the AGF insurance group. The sale represents a significant consolidation in France's mortgage sector.

The combined operations of CdE and Crédisuez will account for 20 per cent of French housing loans. Although no purchase price was disclosed, CdE is understood to be paying just over FFr1bn.

The move also allows AGF, recently taken over by Germany's Allianz, to create new synergies for the distribution of a range of insurance and life assurance products.

In another deal, AGF said it had agreed to pay DM1.35bn ($749m) for Rodutch, the Dutch insurer, from AMB, the German group. AMB said it would record an extraordinary gain of DM800m from the sale.

The deal, which had been announced earlier, was part of a complex three-way arrangement between Allianz, AGF and Generali of Italy.

US sales slump stunts Novartis growth

By William Hall in Zurich

Novartis, the world's third biggest pharmaceuticals company, yesterday confirmed the sharp slowdown in its growth with a 1 per cent increase in first-half sales, to SFr16.8bn ($11.1bn).

However, it said it expected sales of its core pharmaceuticals business to "gradually accelerate" in the second half.

Pharmaceutical sales, which account for more than 40 per cent of group sales, rose 4 per cent in local currency terms in the second quarter, to SFr3.6bn.

Sales performed well in Europe and rose in Japan. But in the US, the world's biggest pharmaceuticals market, growth was affected by wholesalers running down inventories.

Second-quarter pharmaceutical sales growth was up on the first quarter figure of 2 per cent, but was well below the 1997 growth rate of 11 per cent and lagged behind the industry.

Novartis shares have substantially underperformed the stock market this year as evidence has mounted that it was growing more slowly than rival healthcare and agribusiness groups.

First-half sales at its healthcare division – 75 per cent of which is pharmaceuticals – rose 4 per cent in local currency terms, to SFr9.3bn, while agribusiness sales rose 2 per cent, to SFr5.3bn. Nutrition sales rose 3 per cent in local currency terms to SFr2.1bn.

Mark Tracey of Goldman Sachs said yesterday he was sticking to his forecast of an underlying growth rate of pharmaceutical sales of less than 5 per cent in 1998.

The shares rose SFr10 to SFr2,420 yesterday, helped by the company's comments that its drug sales would gradually accelerate in the second half, reflecting the more rapid underlying growth in the prescription sales of its products in the US. It also expected a "marked increase" in net income for the full year, which would reflect the cost-saving benefits of the 1996 merger of Sandoz and Ciba.

However, the company also warned it expected no significant change in its agribusiness, given the concentration of sales in the first six months of the year.

Last year, Novartis's agribusiness sales rose 8 per cent in local currency terms. However, crop protection sales grew by just 1 per cent in the first half of 1998, compared with 10 per cent in 1997, which more than offset the double-digit second-quarter growth rate in the seeds business.

● Ciba Specialty Chemicals increased its first-half sales by 9 per cent, to SFr4.3bn. After stripping out the impact of the Allied Colloids' acquisition, sales grew 4 per cent in local currency terms. Ciba said this was higher than the estimated market growth of 2-3 per cent.

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TV TECHNOLOGY PIONEERING COMPANY EXTENDS CIRCLE OF ALLIES BY FORGING VENTURE WITH NBC

Gemstar rejects 'too low' United Video bid

By Christopher Parkes in Los Angeles

Gemstar, a pioneering television technology company, has rejected a hostile bid from United Video Satellite, saying the $2.8bn cash offer was too low.

It also announced a new venture with NBC, the leading US broadcast network, *adding a further powerful* ally to its cause, which is already supported by Microsoft, the world's leading software supplier.

Following the adoption of "poison pill" defences last week, when Gemstar reinforced its Microsoft alliance, the latest moves leave *United Video in a dilemma.*

The aggressor, controlled by Tele-Communications Inc *and News Corporation,* wants Gemstar's interactive technology, to develop its international on-screen programme listings services.

It may either press on with its takeover attempts – although the target's shareholder rights plan is intended to make a hostile *offer prohibitively expensive* – or settle lawsuits and resume negotiations to license Gemstar's technology. United Video's bid followed the collapse of negotiations for a joint venture, which had been expected to result in withdrawal of a Gemstar suit against United Video alleging patent infringements.

Gemstar, best known for its simplified video recorder programming technology, hopes its Guide Plus+ Gold system, will set the international standard for sophisticated TV programme selection on-screen.

Gemstar already has licensing agreements with leading TV set and VCR makers, and its technology is used in Microsoft's latest version of Windows and WebTV; which allows viewers to use their television sets to access the internet.

Under yesterday's deal with NBC, the broadcaster *will provide* bandwidth to carry Guide Plus+ Gold, and MSNBC, its joint venture with Microsoft, will *provide* news services to the guide.

NBC has also taken a 5 per cent stake in TDN, a joint venture between Gemstar and Thomson Consumer Electronics to develop programming and advertising for the service.

Triton poised to give details of assets sale

By William Lewis in New York and Robert Corzine in London

Triton *Energy*, the Dallas-based independent oil and gas company, is expected *imminently to announce* the details of the sell-off of its two biggest assets and possibly the whole company.

People close to Triton said yesterday that the company was planning to make a statement today about the successful conclusion of a deal. However, because of the extent of short selling of the stock in recent days, the company was *said to be* considering bringing forward its announcement to Thursday afternoon.

Triton has formally offered for sale two assets: its 12 per *cent* stake in the British Petroleum-operated Cusiana and Cupiagua fields in Colombia, and its 50 per cent stake in the undeveloped gas reserves discovered in the offshore joint development area between Malaysia and Thailand.

However, Triton is thought to have been considering the option of selling off all its assets. The company, which yesterday morning failed to return telephone calls, has been advised by CIBC World Markets and Lehman Brothers.

In morning trading on Wall Street yesterday, Triton's share price rose $1 1/8 to $30 1/2 on speculation about an announcement. This price gives the company a market capitalisation of about $1.1bn. On Wednesday, Triton's share price fell 8.7 per cent to close at $28 7/8, well below what most bankers and analysts had considered the company to be worth.

When Triton first announced it was considering an auction of its oil and gas field holdings, its stock was trading at about $42 a *share*. Valuations of the company have varied, although Triton is said to have been looking for a takeout bid of more than $50 a share.

In recent weeks, more than 30 companies are said to have passed through its data rooms, in which details of the two assets were available.

Given the size of the two main assets, most of the sales effort has been focused on large integrated oil companies. Their investment decisions are driven more by long-term strategic concerns than current low oil prices.

Total and BP have been mentioned as potential buyers, although people close to the auction yesterday ruled out the UK oil company as a buyer.

Triton's auction has attracted much attention in the oil industry, as it has highlighted the financial difficulties experienced by successful explorers. The cost of developing Triton's two main assets has outstripped the company's ability to fund them.

Ameritech and SBC beat expectations

By Richard Waters in New York

SBC Communications and Ameritech, the two US local telephone carriers which last month announced a $61bn merger, topped Wall Street expectations with double-digit earnings increases for the second quarter, fuelled by revenue growth in both cases of nearly 8 per cent.

Both Baby Bells benefited from similar developments: the strong demand in the US for new telephone lines thanks to the continuing economic *expansion*, combined with sales of new calling features to existing cus*tomers and high growth* rates in wireless telephony.

SBC's growth was underpinned by a *5 per cent* increase in the number of access lines in use, to 33.8m, buoyed by the expansion in the Southwest and West Coast. At Ameritech, whose operations are concentrated in the Midwest, access lines rose 4.1 per cent to 20.8m.

Both companies also claimed progress in selling new, higher-margin services such as call-waiting. SBC's Southwestern Bell unit, which has led the other US local carriers in this regard, said 49 per cent of its residential customers had now subscribed for its Caller ID service, while each of its access lines used an average of 2.45 different "features".

At Pacific Telesis, which was acquired by SBC last year, the comparable figures are only 9.4 per cent and 0.9 features per line. While not disclosing penetration rates, Ameritech said sales of services such as Caller ID were up 21 per cent from a year ago.

The *Chicago*-based company also reported a 21 per cent increase in wireless cus*tomers, to 3.5m, compared* with an 18 per cent increase, to 5.8m, at SBC.

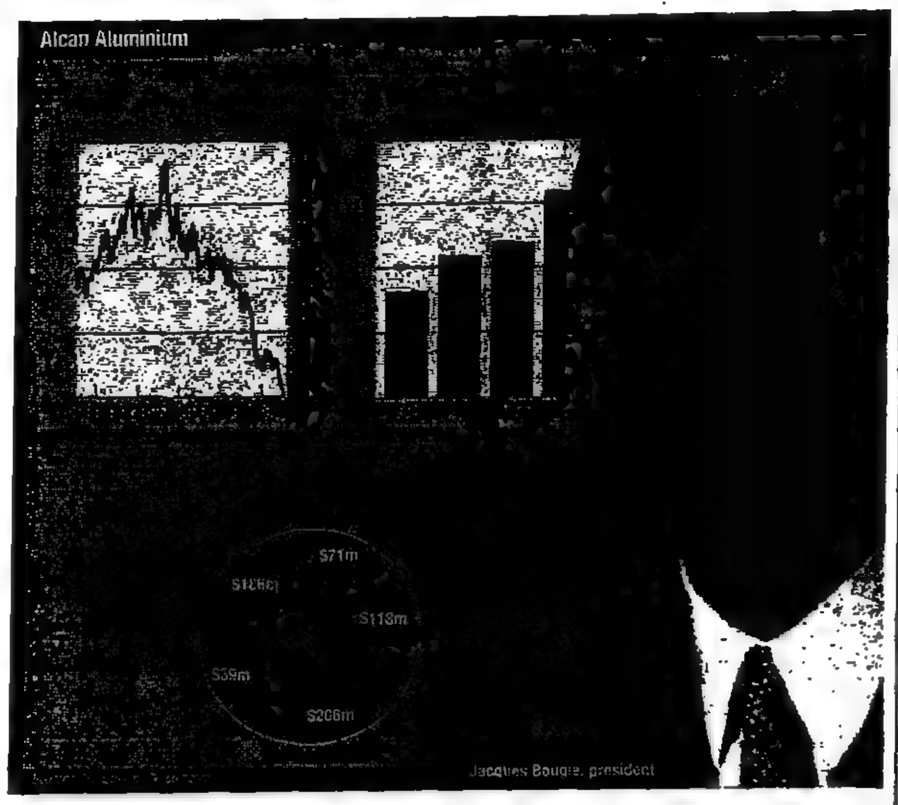
*These developments con*tributed to a 7.9 per cent increase in revenues at SBC, *to* $6.6bn, and a 7.6 per cent increase at Ameritech, to $4.3bn.

SBC reported a 19.6 per cent increase in underlying net income, to $966m, while earnings per share, at 52 cents, topped estimates of 50 cents. A $1.6bn charge on the merger with Pacific Telesis left SBC with a loss a year ago.

Ameritech said its earnings had increased by 11.4 per cent to $695m, or 63 cents a share, 1 cent ahead of expectations.

Alcan makes sense of Indian imbroglio

Winning control of Indal has strengthened Canadian group's Asian ambitions, writes **Kenneth Gooding**



Jacques Bougie, president

Alcan of Canada, the world's second largest aluminium group, has emerged victorious from an acrimonious battle for control of Indian Aluminium, but there must be at least a suspicion that it paid too much to keep its grip on the company.

The bidding for Indal started at 90 rupees a share and ended with Alcan paying 200 rupees.

There were so many twists and turns in *Alcan's duel* with Sterlite Industries, an Indian group, for control of *Indal that it caused the* Securities and Exchange Board of India to carry out a thor*ough review of its* takeover code.

The imbroglio started innocuously enough when Sterlite – which, among other things, owns a copper smelter, and produces telephone cable, copper rod and aluminium sheet and foil – made an unsolicited offer for 10 per cent of Indal at 90 rupees a share.

Now that the battle is over, Alcan will increase the 35 per cent of Indal it has held for many years to 54.6 per cent by paying 200 rupees a share in cash.

Jacques Bougie, Alcan president, insists: "We don't feel we overpaid. Indal issued shares at 200 rupees not long ago and the underlying value is well over 90 rupees. If the price had been *high enough, we would have* sold."

Alcan had good reason to *stay involved with Indal.* "It's got a good future and Alcan can take part in that," *says Mr Bougie. He points* out that the Indian economy is growing at 6-7 per cent a *year and* "Indal will enjoy the fruits of that growth".

The Indal deal fits well with Alcan's strategy in Asia. In 1996 the group restructured its various holdings in Japan and the rest of Asia to reinforce its support of subsidiaries and related companies in south-east Asia and China, while enabling Nippon Light Metal, in which it has a 45.6 per cent stake, to focus on strengthening its business in Japan.

"We are in the management seat in south-east Asia. We believe strongly in the attractiveness of the region in the longer term. Asia will be a big [aluminium] consuming area. We have very good assets there. The challenge is for the companies to develop their management skills," says Mr Bougie.

Also, it will cost Alcan only US$67m to add to its *Indal* stake, a relatively modest sum compared with some of its other investments.

In the past 18 months, the group has given the go-ahead for a $1.6bn aluminium *smelter in Quebec* that will increase its annual output by nearly 20 per cent; *has arranged with Comalco*, the Australian group, to develop Alcan's Ely bauxite *deposit* in Queensland; increased its stake in its Ghana bauxite subsidiary *from* 56 to 80 per cent and is to spend $15m to expand there; and has committed to spend $350m over three years to expand its Brazilian rolling operations. Capital expenditure this year will be about $550m.

Has the time come for a pause for breath, for some consolidation? Mr Bougie thinks not.

He has supervised a radical restructuring of Alcan, which went from being Canada's most profitable company in 1988 to three years of losses from 1991. Behind its troubles lay its position as the industry's most international company.

This left it more vulnerable than most to the surge of aluminium exports to the west following the collapse of the Soviet Union. The group responded by cutting $600m from its permanent cost base in the early 1990s and restructured *to focus on* core operations.

Alcan sold 45 businesses with *total revenues of* $1.6bn. The process was completed at the end of 1996 and *freed* $1.2bn.

It also freed management to look at acquisitions and *expansion projects.* Mr Bougie is sure that consolidation of the global aluminium industry has some way to go. "The best time to look at restructuring is when other people might be having some problems," he suggests. Any acquisitions will be related to core businesses: raw materials and chemicals, and smelting and rolling.

"We will take our chances to become involved in greenfield or brownfield operations, possibly by swapping assets. There could be more restructuring within aluminium companies and as they change Alcan may participate," he says.

One big opportunity seems elusive. Alcan twice joined with its biggest rival, Alcoa of the US, to bid for the aluminium companies being privatised by Venezuela. Twice they backed away.

However, Mr Bougie makes it clear that Alcan remains interested. "Under a different set of conditions and more legal certainty we would be interested in taking part in the future of the Venezuelan *industry.*"

He cautions, though: "Whoever takes over, it will be a *long time – years –* before the Venezuelan assets are world competitive again."

Not that the aluminium industry is a big money spinner. Mr Bougie constantly points out that in only two of the past 15 years Alcan has made returns exceeding its cost of capital – the weighted cost of debt and equity after tax. The rest of the aluminium industry has succeeded in achieving this only once.

To improve Alcan's performance he has launched a programme aimed at tapping "the full business potential" of its entire operations.

He estimates that this should boost annual after-tax profits by $300m by 2000. Savings have already reached $100m, he says, and "we are now looking at what can be done to 2001".

Goodyear rise aided by lower materials prices

By Nikki Tait in Chicago

Lower materials prices and continued *cost-cutting* were offset by a range of operational setbacks – from a tyre recall to *the General Motors* strikes – at Goodyear in the second quarter. The US tyre manufacturer reported after-tax profits of $199m, compared with $192.2m previously, or $181.7m from continuing operations.

Samir Gibara, chairman, admitted there had been "a number of particularly challenging issues" in the past three months. Goodyear said sales had slipped from $3.3bn to $3.1bn. It blamed the stronger dollar for about $120m of the downturn. In addition, it said, the weak economic situation in Asia and parts of Latin America contributed to the fall, as did the strikes which have crippled North American production at GM, and "competitive pricing worldwide".

The tyre business alone saw sales drop from $2.83bn to $2.7bn, although unit volumes were up by 1.7 per cent, while general product revenues were down from *$460.8m to $434.2m.*

At the profit level, Goodyear calculated that the stronger dollar had clipped *about $20m off pre-tax oper*ating income, with a tyre recall and the settlement of lawsuits in Latin America accounting for $22.4m. Switching to seven-day work schedules in the US and UK and the effect of the GM strikes depressed pre-tax profits by about $25m.

In Asia, Goodyear's operating profits tumbled to $15.9m, compared with $22.8m, while the Latin American operations saw a fall from $71.8m to $46.7m. The European operations, however, rose to $108.4m, from $91.7m.

But the tyremaker also said the falling materials costs and its own cost-containment efforts had run in its favour.

● The GM strikes were also blamed for lower profits at TRW, the Cleveland-based manufacturing group, which posted second-quarter profits of $125.8m after tax, compared with $134.4m previ*ously. Earnings per share* fell from $1.05 fully diluted to $1.00, with the company *saying the GM stoppage* trimmed 7 cents from earnings. Overall, sales were 6 per cent higher at $3.03bn, but the automotive division saw a 3 per cent decline, to $1.81bn.

Kaiser and Billiton eye Venezuela

By Raymond Colitt in Caracas

Kaiser Aluminum of the US and Billiton of the UK are considering forming a single consortium to bid for the Venezuelan Aluminium Corporation, Venezuela's planning minister *said yesterday.*

"They asked us to postpone so they could re*group," said Teodoro Pet*koff, the minister, in an interview with the Financial Times. On Tuesday, *the government* privatisation agency, FIV, postponed the sale date until July 23 by "request of the interested bidders".

Even though only one consortium would be left in the privatisation process, this was a "positive development", Mr Petkoff added, because the two bidders had *been debilitated* and *would* now come out stronger.

Last Monday, Pechiney of *France and Century* Aluminum of the US pulled out of a consortium led by Billi*ton, while George Soros and* other institutional investors withdrew from the Kaiser-led consortium. The announcement triggered fears the sale could falter once again, as it did last March when three international consortia withdrew successively over the contractual terms and a base price of $2.1bn.

Yet Mr Petkoff's announcement suggests the remaining interested *companies are seriously* preparing to bid. They have until Monday to announce *the composition of the* consortium.

The government lowered the base price to $1.55bn last week and revised some of the terms, including labour and electricity costs. Yet the winning bidder is still required to invest $500m towards the plant's modernisation and an environmental clean-up, albeit over a longer period of time. With a 630,000 tonne/year capacity, the corporation is one of the world's largest *but is saddled with a* debt of $1.25bn.

The government is depend*ing on income from the alu*minium privatisation to help to meet its growing budget deficit.

'Push technology' group withdraws share offering

By Louise Kehoe in San Francisco

Pointcast, a pioneer of *internet "push" technology*, has withdrawn its planned public stock offering, saying it *planned instead to seek* strategic partners who would take an equity stake in the company.

Pointcast's push technology, which broadcasts news and corporate information to users' desktops via the internet and private networks, has not achieved the commercial success analysts predicted a year ago.

Consumers have largely rejected push technology, including Pointcast and other internet "channels" which automatically deliver information to users' computers at pre-arranged intervals. The channels require fast links to the internet to work well.

In the corporate sector, where *push technology* has been promoted as a means of distributing company information to large groups of employees, there are concerns it may cause congestion on office networks.

With push now out of fashion, Pointcast is recasting itself as a provider of personalised news services as well as an internet "portal", or gateway website.

These moves appear to have attracted the attention of media companies and other potential investors. Last year, Rupert Murdoch's News Corporation is understood to have shown interest in investing in Pointcast, but the technology company spurned the approach.

*Pointcast has not identi*fied any potential partners, but said it wanted to be free to enter discussions and was therefore obliged to withdrew its IPO registration statement with the Securities and Exchange Commission.

The move does not appear to signal an end to new issues in the internet sector. On Wednesday, eBay, an internet auction service, registered its intent to go public.

Downturn in toy orders hits Mattel and Hasbro

By Richard Tomkins in New York

Mattel and Hasbro, the world's two biggest toymakers, both reported sharp declines in second-quarter *profits yesterday as they* continued to suffer the effects of a downturn in orders from *Toys R Us*, their biggest customer.

The companies also suffered a dearth of product tie-ins with big movies. A year earlier, they were benefiting from sales linked to films such as *Hercules*, *The Lost World*, *Jurassic Park* and the re-released *Star Wars* trilogy.

Mattel, which had warned last month that profits would be down, said second-quarter net earnings fell from $72.8m, or 25 cents a share, to $58.4m, or 20 cents a share, in line with expectations.

Mattel makes the Barbie *doll, the world's best-selling* toy, and the company was hard hit by a sharp downturn in Toys R Us orders for the doll.

Toys R Us, the world's biggest toy retailer, has been aggressively cutting inventories since the beginning of the year in an effort to reduce costs and restore growth to its sagging profits.

But Mattel said underlying demand for Barbie remained strong, with over-the-counter sales rising 28 per cent in the first half. "We expect Barbie to be up aggressively in the second half, and for all of our core categories to *be up for the full year,"* said Jill Barad, chairman and chief executive.

Hasbro reported a decline in second-quarter net profits from $13m, or 10 cents a share, to $5.5m, or 4 cents a share, slightly better than the the expected 3 cents.

Like Mattel, Hasbro blamed changes to inventory flow policies at Toys R Us and year-on-year differences in the timing of movie releases.

It said the strong dollar also had an impact, reducing group revenues by $9m to $572m.

NEWS DIGEST

COMPUTER SERVICES

Unisys more than doubles second-quarter earnings

Unisys, the computer and information services group, more than doubled earnings in the second quarter, after refocusing its business on selected growth sectors. Net income was $90.1m, or 24 cents a share, *after payment of preferred* dividends. This compared with net income of $41.9m, or 8 cents last time. Revenues rose 9 per cent to $1.73bn. Wall Street analysts had predicted earnings of about 21 cents. Unisys shares had risen almost 3 per cent to $29 5/8 in mid-session. The company also announced it intended to make $160m of debt repayments that would allow it to reach its $1bn debt reduction goal by October 1998, a year ahead of plan. Louise Kehoe, San Francisco

ENGINE MANUFACTURING

Cummins confirms job cuts

Cummins Engines, the Indiana-based engine manufacturer, yesterday confirmed plans – first leaked in May – to cut another 1,000 jobs over the next 12 months, and said this move, coupled with other cost-cutting initiatives, would lead to a "significant" charge in the third quarter of 1998. Its latest workforce reduction scheme, which amounts to about 4 per cent of the existing payroll, was disclosed when an internal letter to employees became public.

The company has undertaken a series of cost-cutting initiatives in recent years, shedding about 3,300 jobs worldwide since 1995 and closing seven plants. However, its performance in recent quarters has been affected by the slump in Asian business conditions, where it sells power-generation equipment and industrial engines. Yesterday, Cummins announced flat second-quarter profits, at $53m, on sales of $1.64bn, from $1.4bn. Earnings per share rose from 38.7 cents to 38.8 cents. Nikki Tait, Chicago

OIL AND GAS

PanCanadian drops 51%

Profits at PanCanadian Petroleum, Canada's fourth largest oil and gas group, fell 51 per cent in the second quarter as its efforts to increase natural gas production failed to offset plunging oil prices. However Suncor Energy, which is launching a C$2.2bn (US$1.5bn) expansion of oil sands production, beat analysts' expectations by posting a 46 per cent increase *in second quarter earnings.* About half of earnings per share came from its aggressive oil hedging programme, in which 30 per cent of 1998 crude oil production was pre-sold at US$20 *a barrel, compared with an average second-quarter market* price of US$13.20. Edward Alden, Toronto

COMPUTERS

Apple rises on upgrades

Shares of Apple *Computer jumped more than 8 per cent* yesterday amid rising confidence that the ailing pioneer of the PC industry is set to make a comeback. Several analysts upgraded *the stock after Apple reported much higher than* expected third-quarter earnings after the close of trading on Tuesday. Net income for the quarter, excluding special gains, was $75m, *or 50 cents a share*; well above *Wall Street's* 33 cents a share forecast.

Although Apple's revenues declined, down 19 per cent at *$1.4bn*, from a year ago, they remained stable with the level of the second quarter. Louise Kehoe

CONTROL SERVICES

Honeywell rises to $125.8m

Shares in Honeywell, the Minnesota-based controls and control service company, yesterday fell $4 7/8 to $85 7/8, in spite of news of after-tax profits of $125.8m *in the second quarter of* 1998, up from $98.4m. This translated into earnings per share of 98 cents, up from 75 cents, and comfortably above the average 93 cents which analysts had been predicting. However, Honeywell also said total orders for the second quarter had been flat and warned that sales growth rates were slowing. Nikki Tait

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sets sale

NEWS DIGEST

more than double
quarter earnings

confirms job cuts

drops 51%

on upgrades

rises to $125.8m

This announcement is not an offer or a solicitation of offers. The Bond Offering is made solely by the Preliminary Offering Circular referred to below. The Bond Offering materials do not constitute, and may not be used in connection with, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation. In any jurisdiction in which the Bond Offering is required to be made by a licensed broker or dealer and in which any Dealer Manager or affiliate thereof is so licensed, it shall be deemed to be made by such Dealer Manager or such affiliate on behalf of the Federation. This announcement is issued on behalf of the Federation and is a summary of the invitation to holders, a full version of which can be obtained from the addresses listed below.

THE BONDS HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "SECURITIES ACT") OR ANY OTHER SECURITIES LAWS AND MAY BE OFFERED AND SOLD ONLY IN TRANSACTIONS THAT ARE EXEMPT FROM, OR ARE NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. THE EXCHANGE OFFER IS BEING MADE IN THE UNITED STATES ONLY TO QUALIFIED INSTITUTIONAL BUYERS IN A PRIVATE OFFERING UNDER SECTION 4(2) OF THE SECURITIES ACT AND OUTSIDE THE UNITED STATES IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT. THE NEW CASH OFFERING IS BEING MADE IN THE UNITED STATES ONLY TO QUALIFIED INSTITUTIONAL BUYERS IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT AND OUTSIDE THE UNITED STATES IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT.

Russian Federation

Invitation to Holders of

Gosudarstvennye Kratkosrochnye Obyazatel'stva maturing before 1st July 1999 ("GKOs")

to Submit, in a Modified Dutch Auction, Offers to Exchange GKOs for

U.S.$ Fixed Rate Bonds Due 2005 ("Bonds Due 2005") and U.S.$ Fixed Rate Bonds Due 2018 ("Bonds Due 2018")

Offering for Cash of up to U.S.$500,000,000 aggregate principal amount of

Bonds Due 2005 and Bonds Due 2018

THE INVITATION AND WITHDRAWAL RIGHTS WILL EXPIRE AT 11:00 P.M. (MOSCOW TIME)/ 8:00 P.M. (LONDON TIME)/ 3:00 P.M. (NEW YORK TIME) ON FRIDAY, 17TH JULY 1998, UNLESS EXTENDED OR EARLIER TERMINATED. THE DEADLINE FOR TENDERED GKOs TO BE TRANSFERRED TO A BLOCKED ACCOUNT IS 3:00 P.M. (MOSCOW TIME) / 12.00 NOON (LONDON TIME) / 7:00 AM (NEW YORK TIME) ON FRIDAY, 17TH JULY 1998.

The Ministry of Finance of the Russian Federation (the "Ministry of Finance") acting on behalf of the Russian Federation (the "Federation" or the "Issuer") hereby invites holders of GKOs (each, a "GKO Holder") to submit offers (each, an "Exchange Offer") to exchange GKOs for Bonds Due 2005 and Bonds Due 2018 (collectively, the "Bonds") issued by the Issuer, on the terms and subject to the conditions set forth in the invitation dated 14th July 1998 (such invitation, the "Invitation") forming part of the Federation's Preliminary Offering Circular dated 14th July 1998 and in the related Letter of Transmittal. In addition, up to U.S.$500,000,000 aggregate principal amount of Bonds are being offered for cash (such offering, the "New Cash Offering" and, together with the Invitation, the "Bond Offering"). The Bonds offered for cash are being offered solely by Goldman Sachs International (the "Lead Manager") or through its selling agents, Goldman, Sachs & Co., subject to receipt and acceptance by it and subject to its right to reject any order in whole or in part.

Calculation of Exchange Prices

Each GKO Holder exchanging GKOs for Bonds pursuant to an accepted Exchange Offer will receive, in exchange for each 1,000 redenominated roubles nominal amount of GKOs exchanged, (a) Bonds Due 2005 having a principal amount (rounded to the nearest cent, with U.S. $0.005 to be taken as a full cent) required so that the aggregate value thereof in U.S. dollars (measured on the basis of the Bond Issue Price (as defined herein) for the Bonds Due 2005) is equal to 50 per cent. of (i) the relevant GKO Exchange Price (as defined herein) divided by (ii) the Average Currency Conversion Rate (as defined herein) and (b) Bonds Due 2018 having a principal amount (rounded to the nearest cent, with U.S. $0.005 to be taken as a full cent) required so that the aggregate value thereof in U.S. dollars (measured on the basis of the Bond Issue Price for the Bonds Due 2018) is equal to 50 per cent. of (i) the relevant GKO Exchange Price divided by (ii) the Average Currency Conversion Rate. The term "nominal amount", as used herein with respect to any GKOs, means the amount of such GKOs that will be due at maturity thereof. The aggregate principal amount of Bonds of each type issuable to, or to the order of, any GKO Holder will be rounded up or down to the nearest U.S. $1,000 (with U.S.$500 being rounded up).

The "GKO Exchange Price" for GKOs of any series will be the price for each 1,000 redenominated roubles nominal amount of GKOs of such series set forth in the table below.

"Average Currency Conversion Rate" means the average Spot Rouble/U.S. Dollar Exchange Rate for each day with respect to which it is reported during the period from and including 14th July 1998 to and including the Expiration Date. "Spot Rouble/U.S. Dollar Exchange Rate" on any day means the rouble/U.S. dollar exchange rate (i.e., the rate at which U.S. dollars may be converted into redenominated roubles, expressed as a number of redenominated roubles per U.S. dollar), for settlement on such day, as reported on the Reuters Screen MICEXFRX Page as of 10:30 A.M., Moscow time, on such day.

The "Bond Issue Price" for Bonds of each type will be a *price* per U.S. $1,000 principal amount of Bonds of such type (calculated as described herein and rounded to the nearest cent, with U.S. $0.005 to be taken as a full cent) intended to result in a yield to maturity on the Settlement Date (as defined herein) equal to the sum of (a) the UST Benchmark Rate for such Bonds on the Expiration Date and *(b) a spread (the "Bond Clearing Spread")* selected by the Federation pursuant to the modified Dutch auction process described herein. As used herein, "UST Benchmark Rate" for any Bonds means the yield to maturity (calculated in accordance with standard market practice) corresponding to the bid-side price, as reported by the Cantor Fitzgerald Securities 3:00 P.M. Composite Quotation Service *on the Expiration Date for (a) in the case of* Bonds Due 2005, the U.S. Treasury 5⅝ per cent. Bond due May 2008, and (b) in the case of Bonds Due 2018, the U.S. Treasury 6⅜ per cent. Bond due August 15, 2027.

Modified Dutch Auction Process; Acceptance of Offers; Order of Priority; Proration; Participation by the Federation, the Lead Manager and the other Dealer Managers

A GKO Holder submitting an Exchange Offer may either (a) specify a minimum spread (expressed as a percentage in increments of *0.01 per cent.) that such GKO Holder* would be willing to accept as the Bond Clearing Spread for the GKOs offered to be exchanged pursuant to such Exchange Offer (such specified spread, the "Offer Spread" for such Exchange Offer) or (b) not specify any such Offer Spread. Any Exchange Offer submitted with a specified Offer Spread above the Minimum Bond Clearing Spread (as defined herein) is *herein referred to as a "Competitive Offer"* and any *Exchange Offer submitted* without a specified Offer Spread (or with a specified Offer Spread that is at or below the Minimum Bond Clearing Spread) is herein referred to as a "Noncompetitive Offer."

The Federation reserves the right in its sole discretion not to accept any Exchange Offers. If the Federation determines to accept any *Exchange Offers, the Federation* in its sole discretion will, after the *Expiration* Date, select (a) the aggregate principal amount of Bonds to be issuable in *exchange* for GKOs pursuant to the Invitation and (b) the Bond Clearing Spread to be used for determining the Bond Issue *Prices*; provided, however, that (i) the aggregate principal amount of Bonds issuable by the Federation in connection with the *Invitation and the New Cash Offering* (the "*Aggregate Principal Amount of All Bonds*") will not be below U.S. $2,000,000,000 and (ii) the Bond Clearing Spread will not be below 8⅜ per cent. (837.5 bps) (the "Minimum Bond Clearing Spread").

Once the Federation has selected the aggregate principal amount of Bonds to be exchanged for GKOs and the Bond Clearing *Spread, the Federation* will accept properly submitted Exchange Offers which are Noncompetitive Offers or which specify Offer Spreads at or below the Bond Clearing Spread (in each case, in the order of priority and subject to the proration rules and limits on the Lead Manager's participation described herein and in the Invitation). Each GKO Holder whose Exchange Offer is accepted by the Federation *will be entitled to the* benefit of the Bond Clearing Spread, even if such GKO Holder specified a lower Offer Spread or made a Noncompetitive Offer.

Procedures for Offering

A GKO Holder desiring to submit an Exchange Offer must arrange for (a) the transfer of tendered GKOs to a blocked account (as described in the Invitation) prior to 3:00 P.M. (Moscow time)/12:00 Noon (London time)/7:00 A.M. (New York City time) on the Expiration Date and (b) *the delivery to the Exchange Agent or the Moscow* Agent, *prior* to 11:00 P.M. (Moscow time)/8:00 P.M. (London time)/3:00 P.M. (New York City time) on the Expiration Date of a duly completed Signature Annex to the Letter of Transmittal. Each Signature Annex must be completed by the GKO Holder or its authorised GKO sub-depositary in the manner described in the Invitation.

Term of Invitation, Termination and Amendment

The Invitation will expire at 11:00 *P.M.* (Moscow time)/8:00 P.M. (London time)/3:00 P.M. (New York City time) on 17th July 1998, unless extended by the Federation in its sole discretion *or earlier terminated. The date on which the Invitation expires is herein referred* to as the "Expiration Date."

New Cash Offering

Subject as provided in the Invitation, the Federation *reserves* the right in its sole discretion not to issue any Bonds pursuant to the *New Cash Offering*. If the Federation determines to issue any Bonds pursuant to the New Cash Offering, (a) the Federation and the Lead Manager will determine by negotiation the aggregate principal amount of the Bonds of each type to be so issued (up to U.S.$500,000,000, subject to the possibility that the New Cash Offering will be increased as described in the Invitation) and (b) the price per *U.S. $1,000 principal* amount of Bonds of each type will equal the Bond Issue Price for Bonds of such type.

Participation by the Federation, the Lead Manager and the other Dealer Managers

The Dealer *Managers other than* the Lead Manager may submit Exchange Offers pursuant to the Invitation without restriction. The Lead Manager may also submit Exchange Offers pursuant to the Invitation but may submit only Noncompetitive Offers in the manner described therein. In the event the Aggregate Principal Amount of All Bonds would be less than U.S.$2,000,000,000, but greater than U.S.$1,700,000,000, the Lead Manager will be obliged, subject to certain conditions, to acquire through Exchange Offers or for cash up to U.S.$300,000,000 in aggregate principal amount of Bonds to ensure that the Aggregate Principal Amount of All Bonds is equal *to at least U.S.$2,000,000,000. The aggregate principal amount of Bonds acquired by the Lead Manager pursuant to Exchange Offers* may not exceed 20 per cent. of the aggregate principal amount of Bonds exchanged for GKOs pursuant to Exchange Offers (including pursuant to Exchange Offers made by the Lead Manager).

Bonds

The Bonds will be direct unconditional unsecured and unsubordinated obligations of the Federation. Each Bond will bear interest from the Settlement Date. The Federation will, on or prior to the Announcement Date (as defined below), select the interest rate to be bourne by the Bonds of each type (each a "Bond Coupon"); provided that the Bond Coupon must be expressed as an increment of ⅛ of 1 per cent. Interest on the Bonds will be payable semi-annually in arrear commencing on the date which is approximately six months after the Settlement Date. Unless previously purchased and cancelled, the Bonds Due 2005 will be redeemed at their principal amount together with accrued interest on the maturity date in 2005 and the Bonds Due 2018 will be redeemed at their principal amount together with accrued interest on the maturity date in 2018. The Bonds will not be redeemable prior to maturity.

Publication

The Federation will announce the results of the Bond Offering by 8.00 P.M. (Moscow time)/5.00 P.M. (London time)/12.00 Noon (New York time) on the first Trading Day following the Expiration Date, or as soon thereafter as practicable (such date of announcement, the "Announcement Date").

Settlement

The settlement date for the Bond Offering (the "Settlement Date") will be the fourth Trading Day following the Announcement Date (or, if such Trading Day is not a Business Day (as defined in the Invitation) the next succeeding Trading Day which is a Business Day).

GKO Prices

The "GKO Exchange Price" for any series of GKOs will be a price for each 1,000 redenominated roubles nominal amount of the GKOs of such series set forth in the following table:

Series of GKOs		GKO Exchange Price (% of nominal amount)	GKO Exchange Price (Redenominated roubles)
Series 21082	Maturity: 29 Jul 98	100.00	1000.00
Series 21083	Maturity: 05 Aug 98	100.00	1000.00
Series 21085	Maturity: 12 Aug 98	100.00	1000.00
Series 21086	Maturity: 19 Aug 98	100.00	1000.00
Series 21088	Maturity: 26 Aug 98	100.00	1000.00
Series 21089	Maturity: 02 Sep 98	100.00	1000.00
Series 21090	Maturity: 09 Sep 98	100.00	1000.00
Series 21092	Maturity: 16 Sep 98	98.54	985.40
Series 21109	Maturity: 23 Sep 98	98.36	983.60
Series 21094	Maturity: 30 Sep 98	98.17	981.70
Series 21104	Maturity: 07 Oct 98	95.11	951.10
Series 21110	Maturity: 14 Oct 98	94.68	946.80
Series 21097	Maturity: 21 Oct 98	93.18	931.80
Series 21111	Maturity: 28 Oct 98	92.69	926.90
Series 21112	Maturity: 04 Nov 98	91.01	910.10
Series 21125	Maturity: 11 Nov 98	90.46	904.60
Series 21114	Maturity: 18 Nov 98	88.64	886.40
Series 21102	Maturity: 25 Nov 98	88.04	880.40
Series 21129	Maturity: 02 Dec 98	86.10	861.00
Series 21119	Maturity: 09 Dec 98	85.46	854.60
Series 21131	Maturity: 16 Dec 98	83.43	834.30
Series 21105	Maturity: 23 Dec 98	82.77	827.70
Series 21108	Maturity: 13 Jan 99	79.32	793.20
Series 21113	Maturity: 20 Jan 99	78.66	786.60
Series 21115	Maturity: 27 Jan 99	78.02	780.20
Series 21116	Maturity: 10 Feb 99	76.75	767.50
Series 21117	Maturity: 24 Feb 99	73.89	738.90
Series 21118	Maturity: 10 Mar 99	72.65	726.50
Series 21128	Maturity: 17 Mar 99	72.05	720.50
Series 21121	Maturity: 24 Mar 99	69.80	698.00
Series 21120	Maturity: 07 Apr 99	68.60	686.00
Series 21122	Maturity: 14 Apr 99	68.02	680.20
Series 21123	Maturity: 21 Apr 99	67.45	674.50
Series 21124	Maturity: 05 May 99	66.33	663.30
Series 21126	Maturity: 12 May 99	65.79	657.90
Series 21127	Maturity: 19 May 99	65.25	652.50
Series 21130	Maturity: 09 Jun 99	63.70	637.00

As part of the modified Dutch auction process described above, the Federation, in its sole discretion, will select a Bond Clearing Spread (which cannot be below the Minimum Bond Clearing Spread). The Bond Issue Price for the Bonds of each type will then be calculated as a price per U.S. $1,000 principal amount of Bonds of such type intended to result in a yield to maturity of the Bonds of such type on the Settlement Date equal to the sum of (a) the UST Benchmark Rate for such Bonds on the Expiration Date and (b) such Bond Clearing Spread, taking into account the Bond Coupon selected for Bonds of such type.

GKO Holders may contact (a) the Exchange Agent or the Moscow Agent for assistance in filling out and delivering Signature *Annexes to Letters of Transmittal, (b) the Lead Manager for answers to questions concerning the terms of the Invitation and (c) any of* the Dealer Managers for additional copies of the Bond Offering material, in each case at one of the telephone numbers listed below.

Only facsimile copies of Signature Annexes to Letters of Transmittal and any communications related thereto will be accepted at *the London office* of the Exchange Agent at the *facsimile number set forth below. Only physical delivery of Signature Annexes* to Letters of Transmittal and any communications related thereto will be accepted at the office of the Moscow Agent at the address set forth below.

The Exchange Agent for the Invitation is:

Citibank, N.A. London
5 Carmelite Street, London EC4Y 0PA

Attention: Global Agency & Trust Services
Reference: Russian Federation
Facsimile: (44) 171 508 3894
Telephone: (44) 171 508 3898

The Moscow Agent for the Invitation is:

Citibank T/O Moscow
Gasheka Str. 8-10, 125047 Moscow

Attention: Securities Department
Reference: Russian Federation
Telephone: 7095 725 6931

The Dealer Managers for the Invitation are the Lead Manager referred to below and Avtobank, Chase Manhattan International Limited, Citicorp Securities, Inc., Credit Suisse First Boston, ING Barings, International Moscow Bank, UNEXIM Bank, Vneshtorgbank.

The Lead Manager for the Invitation is:

Goldman Sachs International
Peterborough Court, 133 Fleet Street, London EC4A 2BB

Inside the U.S.: (212) 902 4657
Outside the *U.S.*: (44) 171 774 6049

Stabilisation: FSA

Shiseido to buy US haircare group

Shiseido, the Japanese cosmetics group, yesterday announced it was acquiring Lamaur, a US manufacturer of salon haircare products, writes Deborah Haynes in Tokyo.

Terms were not disclosed for the business, which last year had sales of $17.4m.

The move is the latest in a series of international acquisitions by the Japanese company, which aims to generate 25 per cent of its consolidated net sales overseas. The group's long-term ambition is to become the world's top cosmetics concern by sales.

In 1988, Shiseido entered the US hair salon market, the world's largest, by acquiring Zotos International, a large manufacturer of products sold to salons.

The Shiseido subsidiary acquired the professional salon division of Helene Curtis in 1996 to strengthen its market position.

The latest deal will make Zotos International one of the top five manufacturers of professional hair salon cosmetics in the US by sales.

In May, Shiseido opened a retail store in New York to launch its "5S" brand, aimed at the mid-range market.

The company also established "Za" in Asia at the start of September last year. The company said future investments would be overseas rather than in the depressed domestic market.

The Japanese cosmetics group last month agreed to market make-up from Stila, of the US, in five Japanese department stores from the autumn.

FINANCIAL SERVICES US GROUP IN AGREEMENT TO BUY ASSETS OF JAPAN'S FIFTH LARGEST CONSUMER CREDIT GROUP

GE Capital set for Y600bn Japanese purchase

By Gwen Robinson in Tokyo

GE Capital, the financial services arm of the US-based General Electric group, is poised to make a full-scale entry into Japan's booming consumer finance business through the acquisition of Lake, the country's fifth largest consumer credit company and the largest unlisted consumer finance operation.

The two companies are understood to have reached a basic agreement on the deal, which would probably see GE Capital pay about Y600bn ($4.3bn) for most of Lake's operating assets and properties.

GE Capital, the world's largest non-bank finance company, last night confirmed it was negotiating with Lake on "possible transactions", but gave no details. Lake, however, said a deal was likely "in the near future", for the sale of most of its assets to the US company.

The deal would be the most significant move by GE Capital into Japan's financial services market and the first full-scale entry by a large foreign group into Japanese consumer finance.

In February, GE Capital formed a joint venture with Toho Mutual, the Japanese life assurance group, to market western-style insurance products in Japan – the first such foray by a western company. In January, the US group signalled its interest in entering Japan's consumer finance field with the acquisition of Koei Credit, a medium-sized group. It also began developing a credit-card business.

"GE Capital has been slowly moving into the consumer finance field, but the acquisition of Lake, if it went through, would be an enormous step forward," said Brian Waterhouse, financial analyst at HSBC Securities in Tokyo.

Lake, based in Osaka, has 560 branches and Y530bn in outstanding loans. The company, which saw strong growth in the 1980s, has been hit by financial problems in affiliates, which forced it to post extraordinary losses in the past few years.

The losses among its affiliates were largely due to excessive lending in the "bubble" era of the late 1980s, mainly in property and asset-backed loans. The affiliates also made poor investments, forcing Lake to seek financial support from its main creditor bank, Mitsui Trust, and other banks.

Analysts, however, said the company's core lending business was in reasonable shape and the majority of outstanding loans were sound. In April, Lake became Japan's first consumer-credit company to establish an automated telephone network, enabling loan applications 24 hours a day throughout Japan.

GE Capital is likely to set up a wholly owned company, which would sharply increase competition in the consumer finance sector.

Through Lake's existing business, GE Capital would acquire a ready-made network at a time when Japan's big banks are reducing lending. Amid a deepening credit crunch, individuals as well as small businesses are seeking fresh sources of credit.

Consumer lending is one of the few areas in the financial sector showing sustained real growth, according to Mr Waterhouse at HSBC. Even as Japan's economy has deteriorated and bank lending waned, the top seven consumer finance companies have shown strong growth, with operating margins of 33-50 per cent.

"In contrast to the US, where commercial banks provide the vast majority of consumer finance... Japan's industry has developed as a largely segmented industry, dominated by six or so specialist companies," Mr Waterhouse said.

For foreign groups, however, Japan's consumer finance sector has proved difficult to crack. American Express was one of several overseas companies that attempted, and failed, to go it alone in efforts to penetrate the industry. But GE Capital has pursued a slow but steady strategy, starting with small acquisitions and laying the groundwork for a full-scale entry.

UCPB board resigns as Cojuangco closes in

By Justin Marozzi in Manila

The entire board of a leading Philippine bank has resigned, it was disclosed yesterday, paving the way for the return of Eduardo Cojuangco, former business associate of the late president Ferdinand Marcos, in a move that has increased fears of a return to "crony capitalism".

All 15 directors of United Coconut Planters Bank, 95.3 per cent of which was sequestered by the Corazon Aquino government in 1986, resigned at the end of June, a day before the inauguration as national president of Joseph Estrada, a self-declared Marcos sympathiser.

Mr Cojuangco was Mr Estrada's key financial backer during the election campaign and is head of the new president's Lamp Party. He was president of UCPB from 1975-1986, when the bank was put into government administration on the grounds that its assets had been fraudulently acquired.

The resignation of Tirso Antiporda, chairman of UCPB, and 14 directors came ahead of the bank's annual shareholders' meeting, which will be on August 14, the company said.

The announcement followed the return last week of Mr Cojuangco as chairman and chief executive of San Miguel, the Philippine food and beverage group that has also been locked in a 12-year ownership dispute.

"I think San Miguel is a precedent," said Mary Rose Maipid, UCPB spokeswoman. "If Mr Cojuangco was able to vote its shares, the board has guessed he will be allowed to vote UCPB shares too."

The ownership dispute at UCPB has prevented the bank from holding an annual shareholders' meeting since 1991.

Events at UCPB are closely related to recent developments at San Miguel, the Philippines' commercial flagship. The bank administers a fund that votes 27 per cent of San Miguel shares.

A recent court ruling allowed Mr Cojuangco to vote 20 per cent of San Miguel shares and gain three board seats.

After that success, Mr Cojuangco filed another petition that would allow him to vote 17.8 per cent of UCPB shares. With the support of other shareholders, Mr Cojuangco is expected to be able to regain leadership of the bank.

"Given this upset at UCPB, it now seems very unlikely that the 27 per cent of San Miguel will go to anyone other than Mr Cojuangco," said the head of research at one foreign brokerage. "That in turn makes a foreign takeover less likely."

San Miguel has been the subject of intense takeover rumours.

Eduardo Cojuangco: the former Marcos associate is set to return to Philippine bank

Japanese carmaker sheds 2,000 jobs

By Alexandra Harney in Tokyo

Mitsubishi Motors, the Japanese car group, has stepped up its plan to cut costs and revive profitability by eliminating 2,000 jobs by next year.

The move highlights the difficult conditions in the Japanese car and truck industries as the Asian economic crisis and Japan's domestic slump hit earnings.

Mitsubishi plans to reduce the number of white-collar employees from 14,000 to 12,000 by March 1999, a year ahead of schedule. The move is part of a restructuring – including changes in its product line-up and in parts acquisition – aimed at lowering costs by Y350m ($2.5m) by March 2000.

The company has already cut 600 jobs by transferring workers to subsidiaries and freezing new recruitment.

"The economic conditions in Japan are extremely bad, and in response to that we would like to implement our restructuring plan as quickly as possible," the company said.

Last year, Mitsubishi Motors posted Y10.2bn in net consolidated losses, against profits of Y11.6bn the previous year. Sales were up 1.7 per cent to Y3,735bn. The results reflected the collapse in demand from Japan and elsewhere in Asia, analysts said.

Conditions have deteriorated further this year. With domestic demand down – sales plunged 9.2 per cent last month – Japanese carmakers have cut production levels, trimmed their workforces and halted production of unprofitable models.

However, analysts warned that Mitsubishi's efforts may not be sufficient to meet the demands of the fiercely competitive car industry.

Fuyuki Fujiwara, of Salomon Brothers Smith Barney, said: "The biggest question is execution. Up until now, the company has been in the process of restructuring. But has it made them competitive? No, and I think the share price reflected that."

The stock closed down Y8, to Y342, yesterday.

Phatra to be bought by parent

By Ted Bardacke in Bangkok

Shareholders of Phatra Thanakit, Thailand's largest finance company, voted yesterday to have the company taken over by its parent company, Thai Farmers Bank. The decision will lead to the eventual delisting and break-up of Phatra Thanakit.

Phatra shareholders voted to accept Thai Farmers' offer of Bt4.5 a share for the 51 per cent of the company it does not already own. Under rules protecting minority shareholders, only investors unrelated to Thai Farmers were allowed to vote.

In spite of objections that the price was unfair, 98.1 per cent of those voting accepted the offer.

The vote had been closely watched, as a rejection would have sent the company towards collapse and eventual government takeover. However, approval also provoked anger among some Thai Farmers shareholders, particularly those who participated in the company's recent $857m international share placement, who had no idea the bank would step in to bail out its finance company affiliate and take on its bad debt.

The company expects to make provisions of Bt2.3bn ($56m) for bad debt in the first half of the year and make an operating loss of Bt400m in the same period.

As part of the acceptance of the tender offer, Phatra shareholders also voted to sell 49 per cent of Phatra Securities to Thai Farmers at June 30 book value and 30 per cent of Thai Farmers Asset Management at Phatra's booked investment cost.

In June, Phatra sold 51 per cent of Phatra Securities to Merrill Lynch for the equivalent of Bt5.2 a share.

The securities company will remain open and operate as normal, but Thai Farmers is still unclear what it will do with Phatra's finance business. Some executives have suggested it will become a wholly owned bad-debt management and recovery vehicle for the entire Thai Farmers group.

Shares of Phatra Thanakit closed at Bt4.3 yesterday, up 7.5 per cent. Thai Farmers Bank rose 9 per cent to close at Bt36.5.

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Sales growth slows at Marks and Spencer

By John Willman, Consumer Industries Editor

Marks and Spencer yesterday provided further evidence of tough trading conditions on Britain's high streets when it reported that sales had been hit by "appalling weather" in June and falling tourism.

Sales for the first quarter to the end of June had risen less than 5 per cent overall, Sir Richard Greenbury, chairman, told shareholders at the annual meeting.

Clothing, footwear and gifts, which had been 10.3 per cent up at the end of May, were now barely 5 per cent higher at the end of June, he said. In foods, the 5.3 per cent increase at the end of May had become a 3.6 per cent rise by the end of the quarter.

He added that "the home furnishings boom is well and truly over", with first quarter sales up 5 per cent.

Analysts said the figures meant like-for-like sales growth for the quarter was probably flat. Sir Richard's figures made no allowance for increased store space or for the extra sales generated by Easter moving into the first quarter this year.

"This statement reveals the scale of the retailing disaster in June," said one. "Even food, which is not expected to be as volatile as other goods, was hit."

"Things appear to have gone horribly wrong in the high street," said another analyst, who also mentioned the flat performance reported yesterday by WH Smith, which blamed the alternative attraction offered by the football World Cup.

Before Sir Richard's statement, analysts' forecasts for M&S had been in the range of £1.05bn to £1.175bn ($1.73bn-$1.93bn) for the year to the end of March 1999. One at the bottom of the range said he would make no change to his forecast, but two others closer to the top said they had cut £90m and £60m off theirs.

M&S shares dropped immediately after the statement, but recovered to end unchanged at 544p. Analysts said fears about trading conditions had already been reflected in the price.

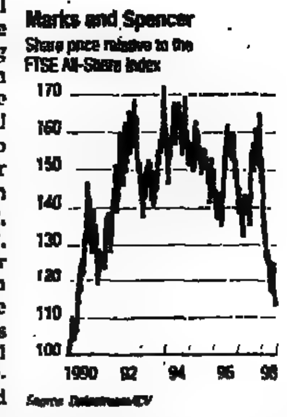
The strength of the pound continued to hit profits, Sir Richard said. And the economic turmoil in Asia had hit sales in Hong Kong, Japan and other countries in the region.

He warned that profits would also be affected by the continuing cost of M&S's expansion programme which involved a £2bn investment. This will add 2m sq ft of selling space in the UK and 1m sq ft overseas – an increase of nearly a quarter. The programme had created more than 3,000 jobs worldwide last year, and would add a similar number this year and next.

COMMENT

Marks and Spencer

Even the steadiest ship will have a rough passage in the squalls currently buffeting the retail sector. So it is with Marks & Spencer, whose grim trading statement will at least offer consolation to some of the sector's leakier vessels. The performance in food remains disappointing, while June, unsurprisingly, was a desperate month for clothing sales. Foreign operations also offer little ballast: demand in Asia is subdued, while continental profits are being hit by sterling. Investors are challenged to look past the grisly cocktail of weather, sterling and a slowing economy to the medium-term. Here they light upon an ambitious investment programme, with space set to grow by a quarter, catapulting M&S towards global retailer status. While this strategy is difficult to fault, the question is when will it deliver returns. Management calibre gives confidence that this is indeed a question of when rather than if. But in the interim, the earnings outlook is hardly encouraging. Given the pace of recent downgrades, and a tough operating outlook, it is going to be a tough struggle just to get back to 1997/8 levels. Moreover, so long as question-marks remain over the food business and over success on the continent, a substantial re-rating looks unjustified.



True, by its own standards, the share is appealingly valued: a ten per cent premium to the market is low. History also suggests M&S outperforms when the economy slows, or is in recession. But it looks a while yet before the share price really starts motoring.

WH Smith

The rehabilitation of WH Smith looks to be proceeding satisfactorily. It is a much simpler business than when Richard Handover took the reins last October, and probably better for it. Disposing of Virgin-Our Price and Waterstones, for decent prices, and bolstering the rump with the John Menzies acquisition makes good sense. This flurry of activity, and a share buy-back programme, have helped the share outperform the sector by 40 per cent since Mr Handover took over.

Further buy-backs, and WH Smith's defensive features, will underpin the price, but only a decent trading record can deliver a more lasting re-rating. Mr Handover, though, has made a decent start.

David S Smith warns of trading at 'low ebb'

By Virginia Marsh

David S Smith, one of the largest paper and packaging groups in the UK, warned yesterday that trading remained at a "low ebb", after it unveiled a near halving of profits last year.

"It was a difficult and challenging year. There's no other way to describe it – and it goes on," said Peter Williams, chief executive. "Our fortunes have really ebbed and flowed with sterling. Our margins were even lower than what we had thought was the bottom of the range of possibilities."

Pre-tax profits fell 47 per cent to £51.1m (£96m) on sales down 5.7 per cent at £1.11bn (£1.18bn) in the year to May 2. Group margins fell to 5.6 (8.8) per cent but, in the core paper and packaging division, deteriorated further in the second half to about 4 per cent.

While disappointing, the results were broadly in line with expectations; but the gloomy outlook – which follows last week's profits warning by Rexam, the largest company in the sector – caused analysts to cut forecasts for this year.

Panmure Gordon, which had been predicting pre-tax profits of £68m for 1998-99, reduced its forecast by nearly 20 per cent to £55m.

The shares fell 12p to 202½p, down from 344p two years ago.

Mr Williams said the strength of sterling against continental European currencies remained the "major challenge" for the UK businesses, which last year accounted for nearly three-quarters of sales.

The biggest disappointments had been in packaging, and at John Dickinson, the stationery business it bought two years ago. In packaging, high start-up costs at a new plant depressed results that were already under pressure from "exceptionally competitive market conditions".

'Difficult year': David Buttfield, finance director, and Peter Williams

Brendan Corr

C&W raises $1.5bn for buy

By Vincent Boland

Cable & Wireless, the UK telecommunications group, yesterday completed the largest primary equity placing on the London stock exchange, raising £887m ($1.5bn) to help pay for its acquisition of the internet business of MCI Communications of the US.

The placing of 112m new shares represented just under 5 per cent of C&W's market capitalisation. That is the maximum amount that can be sold in a placing without holding an extraordinary general meeting to seek shareholder approval for a capital increase.

The transaction was not the largest placing the London market has seen. That was the £1.22bn secondary placing of a stake in British Petroleum by the Kuwait Investment Office in May last year, in a deal handled by Goldman Sachs.

The C&W shares were placed at 800p each, a 5 per cent discount to the closing price on Wednesday. Bankers at ABN Amro Hoare Govett, which handled the placing with Cazenove & Co, said the transaction was completed in under an hour after "demand across the board" from new and existing investors, with all the shares being sold.

Shares in C&W initially fell on news of the transaction, touching 820½p in the morning. But they recovered strongly in late trading to close 2p lower at 840p.

About 75 per cent of the new shares were placed with institutions in the UK and 25 per cent in the US, which already accounts for some 10 per cent of C&W's shareholder base.

"A lot were existing shareholders but there were a number of investors coming in for the first time," according to ABN Amro. Despite the London market's fall, the placing was helped by positive comment from analysts about the C&W acquisition, including a "buy" note from HSBC.

British Biotech raises drug doubts

By Jonathan Guthrie

British Biotech, the biotechnology company alleged to have misled investors, yesterday raised further doubts about the prospects for an important trial of marimastat, the anti-cancer drug.

It said the drug was pitted against pancreatic cancer, "one of the most aggressive cancers, and is therefore one of the most demanding benchmarks against which marimastat is being assessed".

The trial is one of 11 against different types of cancer, but is expected to be the first to report final results in the first half of next year.

British Biotech reiterated that the trial might be compromised by the actions of Dr Millar, the sacked head of clinical research who "peeked" at the results before completion.

The company said yesterday that spending had risen from £32m ($52m) to £51m in the year to April 30, partly as a result of building a new headquarters. John Savin, a pharmaceuticals analyst at Greig Middleton, the broker, estimated the spend would drop to £40m in 1998-99, easily sustainable over three years on a year-end cash position of £132.8m. He said a US marketing deal involving marimastat could bring in £50m. Losses grew from £28.9m to £44.9m.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Atlantic Telecom	Yr to Mar 31	11.20	(8.89)	9.54L♠	(2.85L♠)	18.86L†	(7.35L)	nil	-	nil	nil	nil
Banks (Sidney C)	Yr to Apr 30	329.4	(323.8)	3.07	(4.26♠)	23.7	(28.4)	7.25	Oct 2	7.25	11.5	11.5
British Biotech	Yr to Apr 30	0.464	(10.1)	44.8L♠	(28.5L)	6.81†	(4.5L)	-	-	-	-	-
Ebief	Yr to Apr 30	6.61	(7.64)	0.512	(0.807)	3.2	(5.3)	0.8	Oct 22	0.8	1.2	1.2
Pedalon Φ	6 mths to Mar 31	1.03	(1.04)	0.321	(0.22)	9.4	(5.64)	-	-	-	-	2
Hi-Tec Sports	Yr to May 1	89.9	(91.2)	3.71	(3.14)	5.4	(4.5)	0.9	Oct 1	1.2	1.5	1.2
McKay Securities	Yr to Mar 31	11.1♦	(10.4♦)	4.41	(4.16)	9.2	(8.8)	3.2	Oct 7	2.57*	4.9	4.2*
Nightfreight	6 mths to May 31	42.8	(44.1)	0.987	(0.805)	1.28†	(1.04)	0.6	Oct 27	0.5	-	1.8
Probus Estates	6 mths to Mar 31	6.28	(5.98)	1.73L♠	(1.93L)	1.37L†	(3.23L)	-	-	-	-	-
Reliance Security	Yr to May 1	118	(102)	5.36	(3.06)	15.4	(8.9)	5.85	Oct 1	5	7.5	6.75
Smith (David S)	Yr to May 2	1,113	(1,180)	51.1	(96)	11.9†	(23.1)	5.5	Oct 1	5.4	8.2	8
Smith (WH)	Yr to May 31	2,801	(2,763)	267♥	(51♠)	79.2	(9.6)	11.5	Oct 23	10.4	16.75	15.65
Vega	Yr to Apr 30	22.5	(18)	3.08	(3.26)	13.75†	(13.79)	3.5	Sept 18	3.5	5.41	5.41

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ♦£4m stock. ‡Total revenue. *Adjusted for scrip issue.

Caspian NY arm on 'life support'

By Clay Harris, Banking Correspondent

Caspian Securities, the emerging markets investment bank in the process of closing itself down, is keeping its New York-based fund management arm on a life support system.

The bank said it had agreed to sustain Caspian Quantitative Asset Management "for a period sufficient to effect, if possible, an orderly transition and separation of CQAM from the company". CQAM, which employs nine people, hopes to establish itself as an independent fund manager.

Caspian also said it would maintain its investment in the Catamaran Fund, a hedge fund run by CQAM. Catamaran keeps at least half its assets in emerging markets' securities.

Caspian has closed most of its other operations after giving up hope of selling them, with one possible exception. ASK-Raymond James, a joint venture between an Indian stockbroker and a Florida-based securities house, has reached agreement to take over the Indian business.

'We have bought the future and we hope it works'

Cable and Wireless considers its purchase of MCI's internet business as a defining event in its history, writes **Alan Cane**

Cable and Wireless, the UK's second largest telecommunications group, took less than 30 minutes yesterday to raise £887m ($1.5bn) in London's biggest share placing.

It will use the funds to help finance its $1.75bn (£1.07bn) purchase of the internet assets of MCI, the US telecoms company. According to Dick Brown, C&W chief executive, the deal gives it "a big piece of the global internet and a bigger piece of the future".

The response to the share placing, underwritten jointly by brokers Hoare Govett and Cazenove, indicated firm market approval for the opportunistic purchase. Despite the size of the placing – 112m shares at 800p a share, a 5 per cent discount to the market price – C&W's shares closed yesterday at 840p, only 2p down.

C&W won the deal – which gives it a 31 per cent share of the US internet market – against fierce competition thought to include British Telecommunications and AT&T.

It has acquired the US company's internet infrastructure – some 22 domestic nodes, the computers which direct internet traffic, 44 "peering agreements", which enable the company to exchange internet traffic with other big operators at no cost, and about 1,200 sales and engineering staff.

More significantly, the deal provides it with a Trojan horse in the heart of corporate America. It includes contracts for internet services with about 1,100 internet service providers, 3,300 directly connected corporate customers and 300,000 customers who dial up for their internet connection. It also includes relationships with more than 100 large corporate customers for services including web-site hosting and "firewalls" – security software which keeps out would be intruders.

The aim of Carl Grivner, chief executive of C&W's US business will be to persuade these customers to take C&W advanced services, such as virtual private networks and frame relay which they at present take from MCI – in addition to internet services.

MCI, which pioneered the internet in the US, was forced to sell the wholesale and retail internet businesses by US and European regulators concerned that the company's proposed merger with WorldCom would concentrate too much control over the internet in the hands of one company.

The deal provides it with a Trojan horse in the heart of corporate US......

MCI had earlier agreed to sell C&W its internet backbone, the "data superhighway" which carries internet traffic in bulk. The regulators insisted, however, that it also dispose of its retail business as a condition of approving the merger. Mr Grivner now has an 18 month window of opportunity during which the combined WorldCom/MCI has undertaken not to attempt to win these customers back. C&W therefore is now in a position – which no other European rival can duplicate – to establish itself as a leading operator in the fast growing US market. It will have the benefit of the US business's experience of internet development to transform the former MCI operation into a global internet outfit using C&W's presence in more than 70 countries around the world.

Mr Brown argues the deal will create more value because:

- The company gains intimate access to valuable multinational companies presently spending a total of more than $2bn a year with MCI.
- It gains the opportunity to establish retail customer relationships that allow cross-selling of products and services.
- It will create a competitive full service internet operator.

All the businesses in the deal have high estimated growth rates. Turnover from direct access to corporate customers, for example, is put at $132m a year, with an estimated growth rate of 62 per cent.

Web-hosting, providing the computer environment for a customer's web site, is only valued at $11m, but it is growing at 100 per cent a year.

The acquisition provides the answer to many of the criticisms of the "old" C&W. It takes it into a leading position in the US, where it has been weak. It opens opportunities in the fast growing data transmission business, and it provides a global stage on which to establish the C&W brand.

Rod Olsen, C&W deputy chief executive, says there are three definitive events in C&W's recent history: privatisation in the 1980s, the creation of Hongkong Telecom as a full service national and international operator, and the acquisition of MCI's internet business. Dick Brown agrees: "We have bought the future," he says.

MANAGEMENT RISK ANALYSIS

Uncertainty made part of the equation

Tony Jackson considers attempts to take all possible dangers into account before embarking on a project

Why did no one foresee the collapse of Barings? Why was the disaster at Union Carbide's Bhopal plant allowed to happen? Why did the Eurotunnel project prove a dead loss for its shareholders?

These are instances of business risk, measurable – at least in *theory* – and therefore manageable. Risk management is a booming *industry these days*. Judging by the record, so it should be.

As the sector expands, so does the concept. At its simplest, risk management consists of identifying dangers – a refinery explosion, the collapse of a currency – and insuring against them.

This definition needs widening in several ways. Many risks are *not insurable. Suppose Shell had* foreseen the risk to its reputation from Nigeria's abuses of civil rights. It still could not have taken out a policy to cover the damage.

There are also risks that cannot be eliminated. They must be lived with throughout the project's life. One such project was Barings' derivatives venture in Singapore. *The risk* was inherent, and badly managed. The result was *disaster*.

What is needed is a methodology for quantifying and managing risk over the life of a project. This, at any rate, is the view of two august British bodies, the Institute of Civil Engineers and the Faculty and Institute of Actuaries. Last week they produced a document aimed at doing the job.*

Simply *put*, the method works like this. First, identify the "risk *events*": *anything from a tunnel* collapse to an outbreak of plague.

Second, assign a probability to each. If the event is frequent – a hurricane in the Caribbean, say – this is easy. If it is unprecedented, it will be harder. It must be estimated just the same.

Third, price the risk. Suppose one event would cost you \$50m, but has only a 1 per cent chance of happening: whereas another would cost \$1m, but has a 50 per cent chance. The impact of both is the same, at \$500,000.

Unless, of course, \$50m would wipe you out. Hence the final *part of the calculation*, which is to map the risks for the project as a whole. If the really damaging ones lie on the fringes of the distribution, go ahead.

In principle, this approach means all risks are put on the same footing. Suppose you are building a toll bridge. The risks might include an *aircraft falling* on the bridge and destroying it, *or the European Union outlawing* toll bridges. Both can be priced in the same way.

But risks can also be mitigated. The airline crash is easy – insure against it. But it should also be possible to reduce the EU risk by skilful lobbying. In each case, determine the costs and include them in the sum.

Finally, manage the risks, right *to the point where the project is* closed down. This will involve *regular reviews. Have the odds* changed? Have some risks vanished and new ones taken their place? If so, perhaps they can be mitigated in their turn.

Uninsurable risk: Nigeria's civil rights record prompted damaging criticism of Shell's involvement in the country

'Unless top management embraces the notion of uncertainty, it won't be communicated. If it's not communicated, it's not managed. And then it will bite you'

If this methodology were consistently applied, it is claimed, the consequences would be profound, not least for corporations and the capital markets. Chris Lewin, a Unilever actuary who *headed the exercise, points out* that in 1994, a Confederation of *British Industry survey showed* that only one-quarter of UK manufacturers did any quantified risk analysis.

"Instead," he says, "they use rules of thumb: don't do a project unless there's a 25 per cent return, and that will insure you against risk. That way, you can *miss opportunities*. What you have to do is mitigate those risks you can, and value the rest. If that yields a net present value, go ahead."

Indeed, he argues, this could help correct a perceived tendency by British industry to underinvest. "The fact that companies are *returning large amounts of cash* to their shareholders when there *are obviously things to be done,*" he says, "suggests they and the *investment community* haven't got it right."

These claims are not without their critics. The methodology, though novel in its presentation, has many familiar components. Some corporations – the oil companies especially – have applied many of these techniques for a long time.

More fundamentally, some would say the method does *not* go far enough. One is Geoff *Smart, a partner specialising in* project management at PriceWaterhouseCoopers, the accountants. "The systematic identification of all risks," he says, "is a fundamental principle of project management. But it's only part of it."

Another crucial aspect, he argues, is the attitude of top management as the project proceeds. Do they create an environment in which it is possible to convey bad news?

"I've seen a lot of project reports in my time," he says, "and hardly ever a pessimistic one. The quality of information *getting to the top is very suspect*. That's a major factor in project *failure*."

This is because some risks cannot be sensibly assessed in advance. For instance, Mr Smart argues, many critical projects are essentially new ground for the organisations carrying them out.

"These are learning projects," he says. "They involve large numbers of people working together in teams for the first *time. The idea that you can esti*mate their productivity at the outset is very doubtful."

A quite different set of reservations is expressed by John Elkington, chairman of consultants SustainAbility. He advocates the so-called "triple bottom line", which measures company performance in social and environmental terms as well as financial.

"I love the idea of developing a mathematical framework which *is robust and readable across a* company's operations," Mr Elk*ington says. "But I'd be very sur*prised if we can crack it in the next 10 or 15 years."

The problem, he says, is that there are risks that managers are not equipped to identify. Companies such as Nike, the sports group, or Astra, the Swedish drug company, have fine commercial records. But Nike has seen its reputation pummelled for paying poverty wages in the developing world, while Astra has been pilloried for sexual harassment at its US subsidiary.

Why are companies wrongfooted like this? One reason, Mr Elkington says, is the composi*tion of their boards. "These are* people with similar sets of *assumptions*. They're not best able to pick up something which is coming from completely off the radar screen."

Another lies with corporate risk managers themselves. "We've met quite a lot of them in our work," Mr Elkington says, "and most of them are not terribly imaginative people."

Hence the problem with mathe*matical risk models*. "People are locked into current strategies and construct defences to deal with yesterday's problems. A lot of the real risks are stealth issues. You have to second or third-guess what may happen."

But if the approach has its critics, there is agreement on two points. The nature of risk is broadening all the time, and it must be addressed at the top of the company.

"Unless top management embraces the notion of uncer*tainty," Mr Smart concludes*, "it won't be communicated. If it's not communicated, it's not managed. And then it will bite you."

**The Ramp Handbook: £30, pp112. Thomas Telford Publications, 1 Heron Quay, London E14 4JD. Tel 0171 665 2464.*

GROWING BUSINESS PRIVATE EQUITY

Secondaries come to the forefront

Specialist funds such as Coller Capital are in demand, reports **Katharine Campbell**

Jeremy Coller was celebrating in style *this* week in Liechtenstein's royal castle. *Coller Capital*, founded by the former pension fund manager at *ICI, the UK* chemicals group, has just raised a *specialist private* equity fund of \$220m, and the setting came courtesy of one his largest investors, Castle Private Equity (Overseas), a Swiss operation with connections to the Liechtenstein royal family.

Mr Coller specialises in "secondaries", an obscure but growing corner of the private equity market. His fund buys out the *interests of investors in other pri*vate equity managers' funds. The latter typically demand commitments of 10 years. Selling to a secondaries vehicle represents the sole exit route for investors who alter their strategy before the fund winds up. With record levels of funds flowing into private equity, demand for such liquidity is increasing.

When *Mr Coller left ICI in 1990* it took him four years to raise his *first fund of just \$65m*. Now he has hauled in a far larger pot in eight months, from a roster of investors including the exacting Calpers, the Californian state retirement fund. More remarkably, he invested it all four days later, buying US-based Shell Pension Trust's private equity portfolio, valued last December at \$265m. It is reckoned to be one of the largest secondaries *transac*tions to date.

Shell is disposing of a portfolio comprising 169 private and 78 *listed companies* – with 13 separate US managers, including Warburg Pincus, and two European firms, one of which is BC Partners. The bulk are buy-out or venture capital investments. It says it has had an "excellent experience" with private equity but decided it was a good time to sell. Fred Bullough, director of private investment, says: "The assets were purchased between 1989 and 1994 at multiples that were a half or a third of what private equity investors are paying for companies today." He said the proceeds would be invested mainly in quoted European equities.

While Coller claims to be Europe's leading specialist sec*ondaries manager, competition is* intensifying on both sides of the Atlantic, as this transaction, settled by auction, demonstrates. Mr Coller, who first got wind of the forthcoming sale last November, claims he did not bid the highest price, but stressed his ability to comply with the vendor's tight timetable and complete the purchase in 2½ weeks. Mr Bullough says: "It is interesting that the final four bidders were within a very narrow band."

Most secondaries' transactions are made at some sort of discount, but quite what price Mr Coller paid is not clear. Last December's valuation gives an indication, but values will have changed since then and some investee companies will have been sold.

Rhoddy Swire, chairman of Pantheon Ventures, which invests in secondaries but does not have a dedicated fund, thinks discounts are irrelevant anyway. "A *40 per cent discount on rub*bish is still rubbish. You need to evaluate every single company."

Data on secondaries funds' returns are elusive, although they probably appear high at the start because the assets are relatively mature, and investors will receive more cash back earlier than on a normal fund.

Mr Coller merely parrots the private equity industry standard of "500 basis points over public markets" when asked *about* his targets. He will soon be talking *specifics* with investors, though, as he raises his next fund, this time aiming at \$350m.

While he hardly planned to be back so soon, he sees nothing wrong in his timing. "If the market turns down there will be a flood of people wanting to sell."

Coller: \$220m fund in eight months

TECHNOLOGY HI-FI EQUIPMENT

Digital loudspeakers in a pitch for perfection

Inefficient, bulky and distorted analogue sound reproduction is at last about to be superseded, says **Paul Taylor**

A British start-up with the improbable *name of 1 . . . Limited* is set to shake up the world *of hi-fi with the development* of the world's first truly digital loudspeaker.

The company, based in Cambridge, says its technology will vastly reduce the distortion of conventional loudspeakers and improve their efficiency.

The development has captured the imagination of *Britain's hi-fi industry*, long acknowledged for its technical expertise. "Digital speakers have been something of a holy grail for the industry, and have been talked about for 20 years," says Stan Curtis, chairman of International Audio whose brands include Wharfedale and Quad. "[1 . . . Limited] have answers to the technical problems."

The company was set up three years ago by Tony Hooley, a Cavendish Laboratory physicist and one-time International Business Machines research fellow at the Institute of Astronomy in Cambridge. It has three full-time staff and a team of six university researchers under contract.

Conventional analogue speakers, invented in the 1920s, are bulky, require heavy gauge cables and convert only about 1 per cent of their electrical power input into sound – making them "by far the weakest link in the chain between recording live sound, and sound reproduction", says Mr Hooley, 1 . . . Limited's managing director and technical director.

The very best conventional loudspeakers operate with about 0.5 per cent distortion levels, and moderately priced hi-fi system *loudspeakers often* have worse than 1 per cent distortion levels, *particularly* when operated at high power.

In contrast, the digital speakers developed by 1 . . . Limited are based on a fundamentally new design. Instead of moving coils and cones, they use a flat-panel matrix of small but identical electronic devices called *piezo-electric long-throw* transducers, each about 10mm in diameter to generate near-perfect sound.

A digital signal processing unit in the speaker takes the binary code input from a digital device such as a CD player and converts it into unary code – a more convenient form for the transducers to *handle*.

Although the transducers *are very small*, when grouped together to form an array they can reproduce the full range of sound normally handled by combinations of large and small "woofer" and "tweeter" conventional speakers.

Digital speakers can be likened to the LCD display on a portable PC where the screen is made up of a large number of identical picture *elements, or pixels*. Looked at very closely no image will be seen, only a collection of squares. However, when you stand back from the display, the eye registers the full array of pixels and the image becomes clear.

Similarly, the digital signal processor inside a digital speaker distributes compo*nents of the sound signal* among the elements of the *transducer array, driving* each transducer with a unique signal.

Listening to any one element would be like listening to a peculiar series of high speed clicks. But standing back enables the human ear to receive and process signals from all the elements, combining them into recognisable sound.

Digital speakers have a *number of* other important advantages over their con*ventional counterparts. Both* the volume and direction of sound emitted can be controlled more accurately than by using traditional equipment.

They can be connected directly to digital audio signals without the need for a power amplifier, heavy cables, or audio equipment. Because they are digital, it is impossible to damage them by input signal overload.

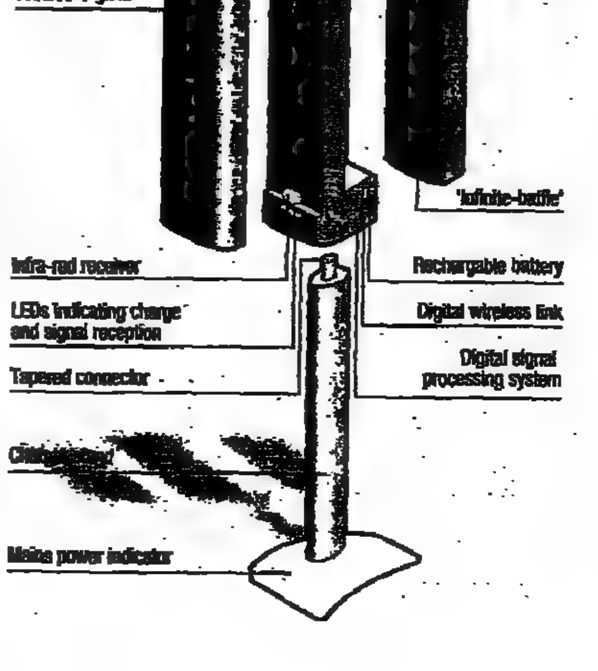
What is more, the speakers can be driven by a wireless or infra-red link directly from the music source with no loss of sound quality.

Initially 1 . . . Limited is aiming to build speakers with less than 0.1 per cent distortion – better than the most expensive conventional speakers. Further improvements in efficiency are expected to enable them to be powered by small rechargeable batteries, making them truly portable.

The company, which has filed more than 15 patents, expects them to be used initially in public address and concert systems.

Vision of the sound of the future

1 . . . Limited digital speaker, exploded view



EURO PRICES

EQUITIES

Rally stalls but two reach highs

EUROPEAN OVERVIEW

By Philip Coggan, Markets Editor

The European rally stalled yesterday after a dull performance on Wall Street but Frankfurt and Paris still had sufficient momentum to reach all-time closing highs.

Both the FTSE Eurotop 100 and 300 indices slipped back from the all-time highs recorded on Wednesday. Both fell by 4.40 points, the former to 3,021.01 and the latter to 1,307.0.

The weakness of the London market meant that the FTSE Ebloc 100, which excludes stocks in the UK and other countries not planning to join the euro, managed to edge up 0.9 to 1,109.29.

Extractive industries was the best performing sector of the day, gaining 3.4 per cent with Billiton up Ecu 0.1 to Ecu 2.1 and Rio Tinto rising Ecu 0.4 to Ecu 10.95. The two UK mining stocks were said to benefit from sterling's weakness and from reduced fears about Asia's economic problems.

Investors in Siemens, the electronics group, paid little attention to the company's profits warning and instead sent the shares racing higher at the mention of the magic word "restructuring", as the company suggested it might float off some subsidiaries. The shares gained Ecu 9.9 to Ecu 65.89, helping the electronics sector to a 1.4 per cent advance.

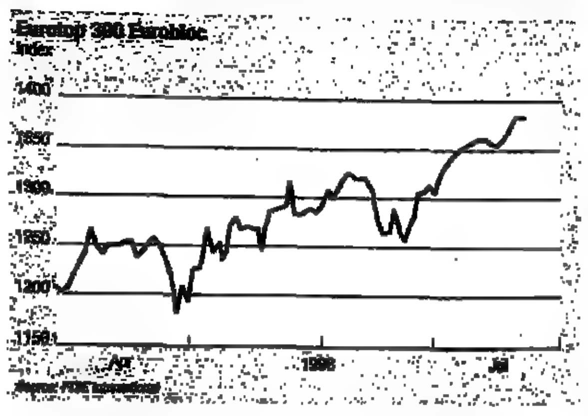
Pirelli, the Italian tyre and cable maker, gained Ecu 0.2 to Ecu 3.42 as it bought the energy cables business of Siemens for DM500m.

Water stocks were by far the worst performers of the day, losing 5.4 per cent as Thames Water fell Ecu 2 to Ecu 15.29 and Severn Trent Ecu 1.1 to Ecu 14.88. The stocks were affected by a downgrade from Morgan Stanley Dean Witter, although some anomalous trades on London's order-driven system may have exacerbated the drop.

Retail banks lost some of the ground gained earlier this week on takeover talk and relief at Russia's deal with the International Monetary Fund. The results season for the sector gets into full swing next week.

Dresdner Bank dropped Ecu 1.2 to Ecu 52.1 while Credit Commercial de France, which on Wednesday was the subject of bid speculation linked to the insurance group Axa, lost Ecu 2.8 to Ecu 84.04.

Eurotop 300 Eurobloc
Index



Source: FTSE International

■ THREE MONTH EURO FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	95.890	95.890	-	95.890	95.880	582	15758
Dec	96.120	96.125	+0.005	96.125	96.115	205	7458
Mar	96.075	96.080	+0.005	96.075	96.070	84	4681
Jun	95.955	95.970	+0.005	95.975	95.965	[illegible]	1880

■ THREE MONTH EURO OPTIONS (LIFFE) Ecu1m points of 100%

Strike Price	Calls Aug	Calls Sep	Calls Oct	Calls Dec	Puts Aug	Puts Sep	Puts Oct	Puts Dec
96000	0	0.010	0.140	0.170	0.110	0.130	0.015	0.045
96125	0	0			0.235	0.235		

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 0 Puts 0

■ FTSE EUROTOP 100 INDEX FUTURES (LIFFE) Ecu20 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	3054.0	3036.0	-13.0	3055.0	3033.0	105	1074
Dec		3071.8	-13.0			0	73

■ EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) Ecu10 per index point

	2950 C	2950 P	2975 C	2975 P	3000 C	3000 P	3025 C	3025 P	3050 C	3050 P	3075 C	3075 P	3100 C	3100 P	3125 C	3125 P
Jul	171	2	140	2	121	2	98	2	71	2	47	4	28	8	11	20
Aug	200	71	2	47	4	26	8	11	20	805	18	218	16	298	17	287

[illegible]

OTHER INDICES

	Jul 16	Jul 15	Jul 14	1998 High	1998 Low	Since compilation High	Since compilation Low
DJ Stoxx 50	3505.75	3507.32	3502.10	3507.32	2574.51	3507.32	2076.42
DJ Euro Stx 50	3613.40	3602.83	3570.86	3613.40	2455.81	3613.4	2805.82
MSCI Europe	1300.51*	1292.11	1276.64	1300.51	980.50	1300.87	310.78

Source: Extel/part of FT Information. *Subject to revision next day. (u) unavailable.

FTSE Actuaries Share Indices — European series

Produced in conjunction with the Faculty and Institute of Actuaries

July 16 National & Regional Markets	Ecu index	Day's %	change points	Yield gross %	xd adj ytd	Total rate (Ecu)
FTSE Eurotop 300	1307.00	-0.31	-4.04	2.19	19.06	1338.12
FTSE Eurotop 100	3021.01	-0.13	-4.04	2.19	25.13	1076.68
FTSE Ebloc 100	1109.29	+0.08	+0.90	1.85	12.23	1122.59
FTSE Eurotop 300 Regions						
Eurobloc	1385.90	+0.03	+0.38	1.85	16.42	1411.63
UK	1184.35	-0.85	-10.11	2.79	21.84	1227.38
Europe Ex-Eurobloc	1241.03	-0.68	-8.23	2.65	18.74	1274.17
Europe Ex-UK	1377.21	-0.05	-0.66	1.91	17.48	1399.95
FTSE Eurotop Industry Sectors						
RESOURCES	984.43	-0.04	-0.42	2.92	20.25	1018.63
Extractive Industries	832.47	+3.44	+27.87	3.13	0.00	832.47
Oil, Integrated	948.78	-0.16	-1.49	2.92	13.44	962.02
Oil, Exploration & Prod	941.79	-1.38	-13.22	2.58	0.00	941.79
GENERAL INDUSTRIES	1287.88	+0.03	+0.41	2.27	18.01	1310.78
Construction	1019.00	-0.20	-2.08	2.53	11.09	1030.96
Building Matls & Merchs	1056.61	-1.67	-17.97	2.61	7.86	1063.97
Chemicals	1089.98	-1.61	-17.82	2.89	15.96	1107.32
Diversified Industrials	1058.28	+0.09	+0.90	2.09	16.20	1074.84
Electronic & Elect Equip	1130.54	+1.38	+15.39	1.61	3.25	1134.08
Engineering	1071.27	-0.20	-2.13	3.10	8.46	1080.04
Paper, Pckg & Printing	855.97	-0.07	-0.65	2.47	1.21	858.16
CONSUMER GOODS	1201.83	-0.30	-3.68	1.82	13.49	1220.16
Automobiles	1186.41	+0.21	+2.49	2.17	8.23	1195.39
Alcoholic Beverages	1029.91	-0.72	-7.46	2.18	6.62	1036.09
Food Producers	1069.86	-0.57	-6.10	1.56	8.79	1078.93
Household Goods & Textls	1101.83	+1.48	+16.13	1.89	7.01	1108.83
Healthcare	1050.74	-1.04	-11.04	6.16	9.52	1061.42
Pharmaceuticals	1009.02	-0.41	-4.17	1.33	2.07	1011.14
Tobacco	1170.86	+0.18	+2.14	3.68	1.61	1172.06
SERVICES	1293.73	-0.39	-5.01	2.03	18.29	1312.02
Distribution	1003.07	-0.47	-4.78	2.17	11.37	1014.34
Leisure & Hotels	987.31	-1.22	-12.17	2.53	8.12	995.19
Media	1078.77	-0.52	-5.69	2.14	3.82	1082.62
Retailers, Food	1060.18	-1.57	-16.89	2.84	9.18	1070.05
Retailers, General	1041.68	-0.63	-6.61	2.00	13.17	1055.26
Telecommunications	1175.46	+0.06	+0.69	1.78	7.38	1184.00
Breweries, Pubs & Rests	959.82	-1.78	-17.37	3.13	8.69	968.51
Support Services	1067.20	-0.11	-1.23	0.94	5.88	1072.09
Transport	1120.38	-0.36	-4.05	2.18	10.66	1132.02
Information Technology	1247.23	+1.31	+16.12	0.33	2.23	1250.07
UTILITIES	1419.93	-0.81	-11.60	3.16	53.32	1496.78
Electricity	1065.16	-0.44	-4.75	3.34	29.23	1093.91
Gas Distribution	1147.16	+0.82	+9.36	1.83	84.81	1252.79
Water	1065.72	-5.43	-60.63	4.90	38.72	1096.04
FINANCIALS	1495.89	-0.49	-7.33	2.26	20.97	1517.78
Banks, Retail	1064.71	-0.52	-5.54	2.80	8.20	1073.52
Insurance	1114.16	-0.45	-5.04	1.19	8.25	1123.46
Life Assurance	1190.53	-0.44	-5.20	1.77	3.19	1194.48
Other Financial	1069.67	-0.66	-7.15	1.87	13.23	1083.99
Investment Companies	1071.31	+0.77	+8.21	2.34	20.88	1091.34
Property	824.75	-0.81	-6.75	3.29	16.01	839.80

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FTSE EUROTOP 300

Name	Price (Ecu)	Chge +or-	Mkt cap (Ecubn)	Vol (m)	Yld
ALCOHOLIC BEVERAGES					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
AUTOMOBILES					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
BANKS RETAIL					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
BREWERIES, PUBS & RESTAURANTS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
BUILDING MATERIALS & MERCHANTS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
CHEMICALS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
CONSTRUCTION					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
DISTRIBUTORS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
DIVERSIFIED INDUSTRIALS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ELECTRICITY					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ELECTRONIC & ELECTRICAL EQPT.					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ENGINEERING					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
EXTRACTIVE INDUSTRIES					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FOOD PRODUCERS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
GAS DISTRIBUTION					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
HEALTH CARE					
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HOUSEHOLD GOODS & TEXTILES					
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INFORMATION TECHNOLOGY					
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INSURANCE					
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INVESTMENT COMPANIES					
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LEISURE & HOTELS					
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LIFE ASSURANCE					
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MEDIA					
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OIL, EXPLORATION & PRODUCTION					
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OIL, INTEGRATED					
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OTHER FINANCIAL					
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PAPER PACKAGING & PRINTING					
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PHARMACEUTICALS					
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PROPERTY					
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RETAILERS, FOOD					
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RETAILERS, GENERAL					
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SUPPORT SERVICES					
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TELECOMMUNICATIONS					
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TOBACCO					
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TRANSPORT					
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WATER					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Notes
[illegible]

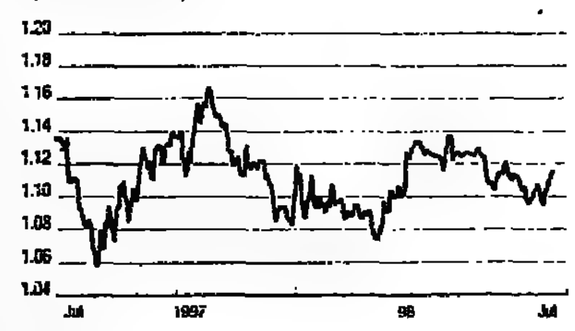
CURRENCIES & MONEY

FT SYNTHETIC EURO RATES

Jul 16	Currency code	Closing mid point	Change on day	Change on day %	Change on week	Change week %
Europe						
Austria	ATS	14.067493	+0.0008	-0.01	-0.0010	-0.01
Belgium	BEF	41.242049	+0.0124	+0.03	+0.0064	+0.02
Czech Republic	CZK	35.654399	+0.0049	+0.01	+0.0848	-0.24
Denmark	DKK	7.518174	+0.0005	+0.01	-0.0039	-0.05
Finland	FIM	6.073627	+0.0015	+0.03	-0.0002	+0.00
France	FRF	6.699935	-0.0035	-0.05	-0.0025	-0.04
Germany	DEM	1.999615	+0.0002	+0.01	-0.0001	+0.00
Greece	GRD	332.887835	-0.2537	-0.08	-0.4851	-0.15
Hungary	HUF	242.592742	+0.6487	+0.27	+1.2841	+0.53
Ireland	IEP	0.795271	+0.0005	+0.06	+0.0005	+0.02
Italy	ITL	1971.882312	+0.5584	+0.03	+1.0507	+0.05
Luxembourg	LUF	41.242049	+0.0124	+0.03	+0.0064	+0.02
Netherlands	NLG	2.253918	+0.0002	+0.01	-0.0004	-0.02
Norway	NOK	8.450603	-0.0258	-0.30	-0.0431	-0.51
Poland	PLN	3.860305	+0.0279	+0.73	+0.0379	+0.99
Portugal	PTE	204.458352	-0.0818	-0.04	-0.0585	-0.03
Romania	ROL	9652.157107	+70.5407	+0.74	+143.4588	+1.51
Russia	RUB	6.925592	+0.0475	+0.69	+0.1045	+1.53
Slovakia	SKK	39.049392	+0.1291	+0.33	+0.4013	+1.04
Spain	ESP	169.665952	+0.0013	+0.00	-0.0005	+0.00
Sweden	SEK	8.894783	-0.0275	-0.31	-0.0304	-0.34
Switzerland	CHF	1.679475	-0.0016	-0.10	-0.0050	-0.30
United Kingdom	GBP	0.681453	+0.0027	+0.40	+0.0109	+1.62
ECU	XEU	1.012193	+0.0005	+0.05	+0.0020	+0.19
Americas						
Brazil	BRL	1.295513	+0.0091	+0.70	+0.0268	+2.11
Canada	CAD	1.660171	+0.0142	+0.86	+0.0495	+3.05
Mexico	MXN	9.862495	+0.0491	+0.50	+0.0920	+0.94
United States	USD	1.116856	+0.0069	+0.61	+0.0227	+2.07
Pacific/Middle East/Africa						
Australia	AUD	1.769079	-0.0087	-0.49	-0.0159	-0.92
Hong Kong	HKD	8.646213	+0.0526	+0.61	+0.1744	+2.06
Japan	JPY	155.952078	+0.2366	+0.15	+1.5150	+0.98
Singapore	SGD	1.872295	-0.0079	-0.42	-0.0053	-0.28
South Africa	ZAR	6.907151	+0.1067	+1.57	+0.0329	+0.45

Source: FTSE International Ltd. This table gives a theoretic, synthetic value for the Euro against various other currencies, calculated by applying GDP weights to Euro "in" currencies. The Euro will not exist until January 1 and the table should not be used as a precise guide to its value. It is designed to show broad currency valuation trends. Currency weightings as follows: DEM 0.3364, FRF 0.2217, ITL 0.1823, NLG 0.0577, BEF 0.0385, ESP 0.0848, IEP 0.0116, PTE 0.0155, ATS 0.0328, FIM 0.0187

Synthetic Euro against the dollar
$ per euro



Source: FTSE International

EUROZONE CURRENCY CONVERGENCE

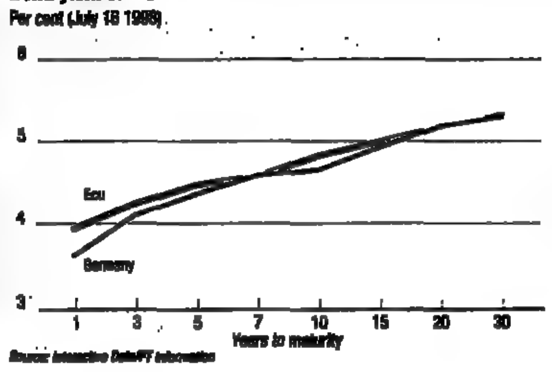
Bilateral conversion rates against the D-Mark

Jul 16	Fixed rate	Market rate	Diff bid v mid %	Week ago %	Forward rate	Forward int rate	Diff int rate v DEM
Austria	7.03552	7.0351	-0.01	+0.00	7.0346	3.56	+0.04
Belgium	20.6255	20.625	+0.00	-0.02	20.6235	3.60	+0.08
France	3.35386	3.3506	-0.10	-0.06	3.3500	3.63	+0.01
Finland	3.04001	3.0399	+0.00	+0.00	3.0404	3.66	+0.04
Ireland	0.402676	0.3977	-1.24	-1.32	0.4017	5.82	+2.20
Italy	990.002	986.0212	-0.40	-0.40	990.5603	4.63	+1.01
Luxembourg	20.6255	20.625	+0.00	-0.02	20.6235	3.66	+0.04
Netherlands	1.12674	1.1272	+0.04	+0.05	1.1268	3.54	-0.08
Portugal	102.505	102.2489	-0.25	-0.27	102.4905	4.15	+0.53
Spain	85.0722	84.8493	-0.26	-0.27	85.0849	4.23	+0.61
Germany	1		+0.00	+0.00		3.62	+0.00

Source: The WM Company. Fixed rates are bilateral rates agreed by EU May 2/3. Forward rates, also exchange rates to 31/12/98 interpolated from market quotes. Forward interest rates are those implied by these forward exchange rates. Diff int rates v DEM are differences between implied forward interest rates and the DEM forward interest rate for 31/12/98. DEM forward interest rate for 31/12/98 is calculated by interpolation between published BBA market fixings.

BONDS

Bond yield curve
Per cent (July 16 1998)



Source: Interactive Data/FT Information

EUROZONE CORPORATE BONDS

Jul 16	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Ecu
Sovereign Fungible Issues								
Belgium (Kingdom of)	03/09	5.750	N/A	106.440	4.94	-0.02	-0.03	+0.03
France (Rep of)	04/29	5.250	N/A	103.340	4.11	+0.00	-0.02	-0.06
Italy (Rep of)	05/08	5.000	AA	100.560	4.93	+0.00	0.04	+0.07
Portugal (Rep of)	06/08	5.375	AA-	103.590	4.11	-0.05	-0.05	+0.05
Euro Issues								
Abbey Natl Treas Srv	02/03	4.875	AA	101.100	4.60	+0.01	-0.10	+0.11
Gen Electric Cap Crp	10/04	5.500	AAA	104.450	4.65	-0.01	-0.09	+0.10
Oest Kontrollbank	04/08	5.250	AAA	102.120	4.97	+0.00	-0.02	+0.11
Cred Local de France	04/08	5.250	AA+	101.000	5.11	+0.02	-0.03	+0.25
Ecu Issues								
Bayer Hypo & Wech Bk	07/01	5.000	AA-	101.622	4.40	+0.00	-0.11	+0.13
Cred Foncier France	03/04	8.375	A	115.630	5.11	+0.01	-0.10	+0.58
Euro Inv Bank	04/04	5.250	AAA	103.910	4.46	+0.02	-0.07	-0.09
ABN Amro Hldg. NV	04/07	6.375	AA-	100.190	5.19	+0.01	-0.04	+0.39

Source: Interactive Data/FT Information. London closing. Fungible bonds issued in tranches by Euro "in" sovereigns and fungible into one big Euro issue 1/1/99. Euro issues are issued in the new currency. Ecu bonds are expected to convert to Euros 1/1/99.

GOVERNMENT BOND SPREADS vs ECU

Jul 16	2 yrs	5 yrs	7 yrs	10 yrs	20 yrs	30 yrs
"INs"						
Austria	-0.05	-0.02	+0.08	+0.02	+0.07	+0.05
Belgium	-0.06	-0.01	+0.09	+0.05	+0.06	+0.11
Finland	-0.10	+0.03	+0.10	+0.04	-0.20	-0.46
France	-0.14	-0.08	-0.05	-0.04	-0.03	-0.05
Germany	-0.19	-0.10	+0.00	-0.18	+0.01	-0.06
Ireland	+0.72	+0.01	+0.08	+0.12	+0.13	+0.31
Italy	+0.25	+0.17	+0.18	+0.12	+0.14	+0.22
Luxembourg	-0.08	-0.01	+0.09	+0.05	+0.08	+0.11
Netherlands	-0.14	-0.08	-0.01	-0.08	-0.02	-0.04
Portugal	+0.13	+0.13	+0.17	+0.10	+0.37	+0.39
Spain	+0.02	+0.06	+0.12	+0.13	+0.18	+0.32
"OUTs"						
Denmark	+0.20	+0.14	+0.20	+0.10	+0.07	+0.22
Greece	+6.45	+4.23	+3.41	+2.73	+2.40	+2.23
Sweden	+0.14	+0.11	+0.18	+0.08	+0.10	-0.07
UK	+2.76	+1.88	+1.45	+0.85	+0.52	+0.12

Source: Interactive Data/FT Information. Table takes common convention constant maturity treasury yield curves for each currency and compares to the constant maturity Ecu curve to calculate a spread.

EUROZONE CREDIT SPREADS vs ECU

Jul 16	S & P rating	Red date	Coupon	Currency code	Spread	Spread wk ago	Spread mth ago
KFW	AAA	01/09	5.000	DEM	+0.00	-0.03	+0.04
France Telecom	AA+	11/08	6.250	FRF	+0.15	+0.14	+0.15
Halifax	AA	07/07	5.625	DEM	+0.17	+0.16	+0.20
Ing Bank NV	AA-	01/08	5.500	NLG	+0.17	+0.18	+0.18
Bayer Hypo W Bk	AA-	02/02	6.750	ITL	+0.32	+0.29	+0.35
Cred Foncier	A	02/03	7.250	DEM	+0.31	+0.30	+0.36
Thomson-Brandt Int	A-	03/04	8.375	FRF	+0.37	+0.34	+0.33
Generale des Eaux	BBB+	03/04	6.250	FRF	+0.33	+0.30	+0.29
Bank of China	BBB	07/09	7.125	DEM	+0.49	+0.67	+0.68
Natl Bk of Hungary	BBB-	05/01	9.000	ATS	+0.65	+0.68	+0.63
Korea Dev Bank	BB+	11/02	5.625	FRF	+5.79	+5.80	+5.09

Source: Interactive Data/FT Information. Table shows yield spreads to the Ecu curve for issues of a broadly representative credit in each rating band denominated in Euro "in" currencies.

Europe takes cue from Treasuries rebound

GOVERNMENT BONDS

By Jeremy Grant in London and Richard Tomkins in New York

Core European bond prices ended slightly higher yesterday after a modest rebound in US Treasuries, but trade was uninspired as investors waited for the political leadership succession issue in Japan to be resolved.

Most traders were keeping an eye on the dollar/yen exchange rate, and were expected to continue doing so until a replacement is found for the departing prime minister, Ryutaro Hashimoto.

Michael Derks, senior strategist at Nomura, said there was likely to be range trading in the meantime, with any yen weakness benefiting bonds. He said near-term direction would be hard to predict.

"It's very hard to say. The future of bonds seems to lie in LDP [Liberal Democratic Party] boardrooms," Mr Derks added.

Some safe-haven buying was seen towards the close of the European trading day as worries about the fate of Russia's austerity plan in parliament filtered through to investors.

However, gilts had more to chew on, posting a modest recovery after the previous day's carnage following unexpectedly strong earnings data.

A British Chambers of Commerce (BCC) survey said the UK faced a "manufacturing meltdown" as a result of the strong pound and recent interest rate rises.

US TREASURIES opened slightly lower in thin trading but moved back into positive territory during the morning as the market continued to take its cue from the dollar.

At noon, the benchmark 30-year long bond was ½ ahead at 106$\frac{1}{32}$, yielding 5.697 per cent.

The 10-year note was $\frac{1}{32}$ up at 101½, yielding 5.474 per cent, and the two-year note was $\frac{1}{32}$ ahead at 99$\frac{25}{32}$, yielding 5.459 per cent.

The weak start came after the US labor department reported that jobless claims dropped by an unexpectedly wide margin of 58,000 to 336,000 in the week to July 11. Analysts had expected a much smaller fall, to 369,000.

Shortly afterwards, the Federal Reserve reported that June industrial production fell 0.6 per cent, mainly because of the General Motors strike, and that the June capacity utilisation rate fell to 81.6 per cent. These figures were broadly in line with expectations.

The main factor affecting bond prices in late morning trading, however, was the safe-haven status of the dollar.

Prices rose amid heightened concerns over Russia's ability to implement the reforms necessary to secure the International Monetary Fund's loan package.

UK GILTS dipped slightly at the opening on news of a higher-than-expected public sector net cash requirement for June but quickly rose on bargain-hunting buying interest.

The September 10-year gilt future settled up 0.12 points at 108.82 in volume of 67,800 contracts traded. The spread in the cash market between the benchmark gilt and bund contracts narrowed by two basis points to 127.

Buying was also helped by the gloomy BCC survey, which Margaret Beckett, trade and industry secretary, dismissed as "nonsense".

However, the market took it favourably, seeing it as one reason for keeping rates where they are.

Nevertheless, traders remain skittish over the direction of interest rates.

Phil Tyson, gilts strategist at HSBC, said: "On balance we still think rates have peaked and next week the retail sales numbers will be important. But the market's going to have a difficult few weeks. Interest rate sentiment seems to be changing with every report that comes out."

GERMAN BUNDS trimmed losses and were helped by slightly firmer US Treasury prices. They also benefited from safe haven flows after a Russian government sales tax proposal was blocked in a parliamentary vote.

The September 10-year bund future settled 0.04 points up at 108.82 in unusually heavy volume of 608,000 contracts traded in Frankfurt.

There was no domestic news to inspire bunds although Bundesbank council member Olaf Sievert said a German interest rate change could not be ruled out this year.

Cyprus and Valencia in international debut

INTERNATIONAL BONDS

By Edward Luce

Two new names made their presence felt in the euro-denominated market yesterday with debut offerings. Cyprus followed its first international bond in dollars last year with an E350m offer. The 10-year issue – designed as a strategic placement – was priced to yield 52 basis points over the OAT.

The bond, which came just 3 basis points inside where Greece is trading, was distributed to mainstream funds in Germany, Italy and elsewhere.

An official at ABN Amro, joint lead with HSBC, said they were able to get significantly tighter funding than in the dollar market where the Cyprus benchmark is trading at a spread of more than 65 basis points over the Treasury.

"It is a very different investor audience in euros," said the banker. Cyprus's dollar bond has also been affected by the crisis sparked by its planned purchase of Russian missiles. However, investors seemed impressed by Cyprus's economic fundamentals, with per capital income higher than in Greece or Portugal and an A2/AA minus credit rating.

Valencia, the Spanish region, made its first international bond offering in any currency with an E300m issue. The offering – again, a strategic placement given the region has very limited funding requirements – follows a number of private placements, mostly with German banks. The seven-year offering, priced at 20 basis points over the curve, was lead managed by ABN Amro and Deutsche Bank.

In the dollar sector, the Bank of Scotland made its first senior floating rate offering in any currency with a $750m issue. Officials at Barclays Capital, sole lead, said the borrower was aware of the recent surge in demand for floating rate paper and wanted to satisfy some of it.

"There is a very uncertain interest rate environment at the moment so investors are moving to floating paper," said the banker. "But there has been very little supply to meet that demand." The bond was split into two tranches – a $400m two-year offering aimed mostly at money managers and a $350m three-year offering aimed at banks.

Elsewhere, Nestlé made a whirlwind visit to the dollar market – its first for three years. The $250m bond was priced to yield 15 basis points over the five-year Treasury but tightened by five basis points last night.

"We saw ferocious demand from Swiss retail and institutional investors," said Warburg Dillon Read, sole lead.

The launch spread was well inside of where Fannie Mae or the European Investment Bank are trading.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Prudential Ins Co of America	1bn	6.375(a)	99.558	Jul 2008	0.35	+60(7%Jul08)	Goldman Sachs & Co
Bank of Scotland Treasury‡	400	(a)	100.09	Aug 2000	0.10	-	Barclays Capital
Bank of Scotland Treasury‡	350	(a)	100.055	Aug 2001	0.125	-	Barclays Capital
FUSA, 98-4, Cls A(b)♦‡	700	(b1)	100.00	Jul 2005	0.35	-	Salomon Smith Barney
European Inv'ment Bank(c)	250	5.625	99.3063	Feb 2005	0.30	+21(5%Jun03)	Salomon Smith Barney
Nestlé Holdings	250	5.625	99.666R	Aug 2003	0.25R	+15(5%Jun03)	Warburg Dillon Read
GMAC Australia	200	6.00	99.87R	Aug 2001	0.225R	+50(5¾May01)	ABN Amro/TMI
D-MARKS							
Gallaher Group plc	500	(d)	(d)	Aug 2008	0.50R	+125(Jul08)	Goldman/HSBC Trinkaus
Unibank‡	300	(f)	100.043	Aug 2000	0.10	-	Barclays Capital
FRENCH FRANCS							
Bank of Nova Scotia‡	1bn	(g)	100.10	Jul 2000	0.10	-	Merrill Lynch Finance
SWISS FRANCS							
Prov of British Columbia(h)	200	3.00	101.15	Jun 2004	2.25	-	Warburg Dillon Read
Dresdner Finance§	100	3.625	100.95	Aug 2008	2.75	-	CSFB
GUILDERS							
L-Bank	250	4.25	99.593R	Aug 2002	0.225R	+46(5%Jun02)	ING Barings
EUROS(e)							
Republic of Cyprus	350	5.375	99.901R	Jul 2008	0.325R	+52(Apr08)	ABN Amro/HSBC Markets
Valencia	300	4.75	[illegible]	Jul 2005	0.30R	+20(7¼Apr05)	Deutsche Bank
GREEK DRACHMA							
EBRD	10bn	8.50	99.90R	Jul 2001	0.1875R	-	Morgan Stanley DW
NORWEGIAN KRONER							
Nordic Investment Bank	425	5.50	101.60	Aug 2005	1.875	-	Unibank

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ♦Unlisted. ‡ Floating-rate note. R: fixed re-offer price; fees shown at re-offer level. a) 3-mth Libor flat. b) First USA Credit Card Master Trust. Legal maturity: Mar 08. b1) 1-mth Libor +12bp. c) Fungible with $750m. Plus 176 days accrued. d) Priced today. e) Pays in Ecu prior to Emu. Spread relates to French govt Ecu bonds. f) 3-mth Libor flat. g) 3-mth Pibor +1bp. h) Fungible with SFr300m. Plus 48 days accrued. § SFr300m launched 2/7/98 was increased to SFr400m. ¢) Short 1st coupon.

NEWS DIGEST

RUSSIA

Fitch IBCA downgrades Uneximbank to B+

Fitch IBCA, the rating agency, yesterday downgraded the credit rating of one of Russia's largest banks, Uneximbank, from BB- to B+ and removed it from RatingAlert negative.

The agency said it had been watching all Russian banks closely in recent months and the downgrade reflected its concerns about the possible need for additional loan loss reserves and continuing pressures on the bank's profitability.

It also cited the unconsolidated status of the bank's financial statements and the potential strain on its capital, asset quality and performance by moves this month to acquire Unicombank, another local bank. Russia's banks have been suffering as a result of the country's deteriorating economic condition. Fitch said the asset quality of Uneximbank's clients "remains uncertain and may deteriorate" given economic problems faced by industry. That could force the bank to make additional loan loss provisions. **Jeremy Grant**

LENDING RATES

Duisenberg welcomes Euribor

Wim Duisenberg, president of the European Central Bank, has welcomed the creation of Euribor, a pan-European benchmark for interbank lending rates in the euro-zone. Mr Duisenberg told members of the European Parliament this week that the ECB had noted the creation of Euribor by the European Banking Federation and ACI, an association of foreign exchange traders.

Euribor, an average of lending rates quoted by some 60 international banks, will rival the Libor index, an average of 16 rates quoted by London-based banks and compiled by the British Bankers Association.

Mr Duisenberg's endorsement is expected to bolster the credibility of Euribor, which was initially greeted with scepticism by bankers already familiar with the Libor benchmark. **Samer Iskandar, Brussels**

YUGOSLAVIA

London Club forgives interest

The London Club of commercial bank creditors and rump Yugoslavia have reached an agreement to restructure $1.7bn of the country's commercial debt. As part of the deal, 33 per cent of accrued interest on the debt will be forgiven.

The agreement calls for the $1.7bn of debt to be repackaged into three parts. This will include $915m of 20-year "capitalisation bonds" to be issued in respect of 75 per cent of the principal owed to the London Club creditors.

There are also "performance bonds" of about $615m which will represent 25 per cent of the principal and 67 per cent of accrued interest. The rest of the interest will be forgiven.

A third type of security for $181m will be issued to the London Club. **Reuters**

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Jul 16	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	04/00	7.000	103.1226	5.09	-0.08	-0.16	-0.47	[illegible]
	10/07	10.000	132.3147	5.45	-0.02	-0.02	-0.13	-1.22
Austria	09/99	7.000	103.4600	3.69	[illegible]	-0.06	-0.13	-0.04
	07/07	5.625	105.6600	4.81	-	+0.02	-0.04	[illegible]
Belgium	01/00	4.000	100.0200	3.97	-0.04	-0.04	-0.10	+0.30
	03/07	[illegible]	[illegible]	4.85	-0.01	+0.01	[illegible]	[illegible]
Canada	09/99	[illegible]	[illegible]	5.27	-0.02	+0.11	+0.08	+0.01
	06/07	[illegible]	113.10[illegible]	5.35	-0.01	+0.10	+0.07	-0.05
Denmark	12/99	8.000	[illegible]	4.25	+0.05	+0.01	-0.04	+0.05
	11/07	7.000	115.0700	[illegible]	[illegible]	+0.04	[illegible]	-1.21
Finland	01/99	11.000	103.3924	3.65	+0.03	+0.03	-0.09	-0.17
	04/06	7.250	116.7130	4.77	-0.01	+0.02	-0.07	-1.12
France	01/00	4.000	100.1356	3.89	-	-	-0.12	+0.22
	10/04	6.750	112.0900	4.49	-	+0.03	[illegible]	-0.49
	10/07	5.500	105.3600	4.77	-	+0.03	-0.03	[illegible]
	10/25	6.000	109.6600	5.32	-	+0.04	-0.01	-1.00
Germany	09/99	4.000	100.2700	3.75	-0.02	-0.04	-0.10	+0.16
	11/04	7.500	115.8700	4.64	-0.01	+0.02	-0.07	-0.61
	07/07	6.000	108.1700	4.72	-0.01	+0.03	-0.05	-0.87
	07/27	6.500	117.6200	5.30	-0.01	+0.03	-0.02	-1.11
Ireland	04/99	6.250	100.6700	6.17	-0.01	+0.04	[illegible]	-0.79
	08/06	8.000	119.7000	[illegible]	+0.01	+0.06	-0.07	-1.43
Italy	05/00	6.000	102.8900	4.32	-	+0.01	-0.13	[illegible]
	05/02	6.250	105.9900	[illegible]	+0.01	+0.02	-0.09	-1.61
	07/07	6.750	112.9300	4.94	-0.01	+0.02	-0.06	[illegible]
	11/26	7.250	125.0600	5.49	-	+0.02	-	-1.82
Japan	03/00	6.400	108.6200	0.67	+0.03	+0.06	+0.12	-0.23
	12/02	4.800	116.0100	1.07	+0.03	+0.07	+0.21	-0.65
	09/05	3.000	110.2000	1.49	+0.02	+0.06	+0.23	-0.70
	09/17	3.000	110.1100	2.34	+0.03	+0.09	+0.25	[illegible]
Netherlands	11/99	7.500	104.4700	3.93	-	-	-0.10	+0.21
	02/07	5.750	107.2000	4.71	-0.01	+0.01	-0.04	-0.82
New Zealand	03/00	6.500	99.2756	6.97	-0.06	-0.25	-1.21	[illegible]
	11/06	8.000	111.0015	6.25	-0.02	-0.13	-0.64	[illegible]
Norway	01/99	9.000	101.8000	6.29	-0.08	-0.06	+0.24	+0.70
	01/07	6.750	109.2500	5.36	-0.02	-0.05	-0.09	-0.71
Portugal	03/99	[illegible]	[illegible]	4.21	-	-0.10	-0.09	[illegible]
	02/07	6.625	111.5700	4.94	-	-	-0.03	-1.39
Spain	07/99	7.400	103.2000	4.14	-0.02	-0.03	-0.07	-0.80
	03/07	7.350	117.1700	[illegible]	-0.02	-	-0.07	[illegible]
Sweden	01/99	11.000	103.2755	4.09	-	+0.02	-0.10	-0.73
	08/07	8.000	122.3340	4.89	+0.01	+0.02	-0.04	-1.65
Switzerland	03/00	5.000	104.3500	2.26	-	+0.11	+0.33	+0.62
	06/07	[illegible]	110.1100	3.17	-0.06	-	+0.20	-0.17
UK	06/99	6.000	98.7736	7.21	+0.01	+0.08	+0.09	[illegible]
	11/04	6.750	103.6250	6.05	-0.03	+0.07	+0.03	-1.05
	12/07	7.250	110.0000	5.85	-0.02	+0.07	+0.10	-1.20
	06/21	8.000	130.0313	5.65	[illegible]	+0.07	+0.15	-1.34
US	10/99	5.625	100.1560	5.49	+0.03	-	-0.03	-0.37
	11/04	7.875	112.2810	5.55	-0.01	+0.06	+0.01	-0.85
	08/07	6.125	103.9380	5.57	-0.01	+0.06	+0.01	-0.82
	08/27	6.375	[illegible]	5.74	-0.02	+0.08	+0.03	-0.74
ECU	01/00	4.000	99.9000	4.06	[illegible]	-0.08	-0.07	-0.13
	04/07	5.500	105.0200	4.79	+0.01	+0.01	-0.03	-1.10

London closing. *New York mid-day. Source: Interactive Data/FT Information

Yields: Local market standard/annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Jul 16	Bid Yield	Spread vs Bunds	Spread vs T-Bonds		Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	5.45	+0.77	-0.02	New Zealand	6.25	+1.57	+0.78
Austria	4.88	+0.20	-0.59	Norway	5.35	+0.67	-0.12
Belgium	[illegible]	+0.23	-0.56	Portugal	4.96	[illegible]	-0.51
Canada	5.35	[illegible]	-0.12	Spain	4.99	+0.31	-0.48
Denmark	4.96	+0.28	-0.51	Sweden	4.94	+0.26	-0.53
Finland	[illegible]	+0.22	-0.57	Switzerland	3.17	-1.51	-2.30
France	4.82	+0.14	-0.65	UK	5.81	+1.13	+0.34
Germany	4.68	-	-0.79	US	5.47	+0.79	-
Ireland	4.98	+0.30	-0.49	ECU	4.86	+0.18	[illegible]
Italy	4.98	+0.30	-0.49				
Japan	1.76	-2.92	-3.71				
Netherlands	4.78	+0.10	-0.69				

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

Jul 16	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
EUROPE								
Croatia	02/02	7.000	BBB-	98.5297	7.47	-0.03	-0.24	+2.02
Poland	07/04	7.125	BBB-	103.7625	6.36	[illegible]	-0.37	+0.90
Russia	06/07	10.000	B+	77.4500	[illegible]	+0.35	+2.11	+9.12
LATIN AMERICA								
Argentina	09/27	9.750	BB	96.7000	10.10	-0.02	-0.60	+4.42
Brazil	05/27	10.125	BB-	90.8500	11.19	-0.05	[illegible]	+5.51
Mexico	05/26	11.500	BB	118.6000	9.59	-0.08	[illegible]	+3.89
ASIA								
China	07/06	7.750	BBB+	106.2433	6.71	-0.02	-0.29	+1.25
Philippines	10/16	8.750	BB+	97.2361	9.06	[illegible]	[illegible]	+3.50
Thailand	04/07	7.750	BBB-	80.1724	9.44	-0.02	+0.47	+3.97
AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB-	[illegible]	7.98	-0.03	-0.24	+2.54
South Africa	10/06	8.375	BB+	103.7080	7.74	[illegible]	-0.02	[illegible]
Turkey	09/07	10.000	B	99.9992	9.99	-0.03	+0.10	+4.52
BRADY BONDS								
Argentina	03/23	5.750	BB	76.3750	8.24	+0.08	-0.13	+2.61
Brazil	04/14	5.000	BB-	77.5000	10.35	-0.08	-0.40	+4.01
Mexico	12/19	6.250	BB	84.0651	7.79	-0.03	[illegible]	[illegible]
Venezuela	03/20	6.750	B+	79.3750	8.91	-0.10	-0.35	+3.31

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	104.38	104.82	-0.27	104.85	104.59	83,172	135,986
Dec	-	104.48	-0.27	-	-	-	22

LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Jul	Calls Aug	Calls Sep	Puts Jul	Puts Aug	Puts Sep
102	3.00	3.05	3.80	0.01	0.08	0.26
103	2.02	2.09	2.21	0.02	0.16	0.37
104	1.07	1.23	1.35	0.07	0.24	0.70
105	0.37	0.57	0.94	0.37	0.57	1.17

Est. vol. total, Calls [illegible] Puts [illegible]. Previous day's open int., Calls [illegible] Puts [illegible].

Germany

NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	108.73	108.82	+0.04	108.95	108.63	[illegible]	65807
Dec		108.17	+0.04			0	448

BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Aug	Calls Sep	Calls Oct	Calls Dec	Puts Aug	Puts Sep	Puts Oct	Puts Dec
10850	0.41	0.69	0.46	0.75	0.09	0.33	0.61	1.06
10900	0.12	0.38	0.30	0.54	0.30	0.66	1.13	1.37
10950	0.06	0.19	0.18	0.35	0.71	0.87	1.51	1.71

Est. vol. total, Calls [illegible] Puts [illegible]. Previous day's open int., Calls [illegible] Puts [illegible]

NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	105.67	105.65	-0.03	105.67	105.74	184,744	282,091
Dec		105.35				200	13,959

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	120.70	120.75	+0.02	120.81	120.48	29043	66571
Dec	106.88	107.06	+0.05	106.92	105.80	525	4990

ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Aug	Calls Sep	Puts Aug	Puts Sep
10300	[illegible]	[illegible]	[illegible]	[illegible]
10350	[illegible]	[illegible]	[illegible]	[illegible]
10400	[illegible]	[illegible]	[illegible]	[illegible]

Est. vol. total, Calls 100 Puts 225. Previous day's open int., Calls [illegible] Puts [illegible]

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	109.95	110.11	+0.07	110.13	109.82	57,376	121,176
Dec		110.30					

UK

NOTIONAL UK GILT FUTURES (LIFFE) £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	102.90	103.13	+0.15	103.15	102.66	13	2984

NOTIONAL UK GILT FUTURES (LIFFE) £50,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	108.30	108.56	+0.12	108.58	108.20	67800	144694
Dec		108.66	+0.12			0	0

LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Aug	Calls Sep	Calls Oct	Puts Aug	Puts Sep	Puts Oct
10850	0.35	0.71	1.03	0.39	0.85	0.87
10900	0.15	0.47	0.78	0.69	0.91	1.13
10950	0.05	0.31	0.59	0.91	1.35	1.42

Est. vol. total, Calls 8974 Puts 3493. Previous day's open int., Calls [illegible] Puts [illegible]

US

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Sep	122-16	122-10	-0-06	122-20	122-08	289,883	483,101
Dec	122-04	122-01	-0-05	122-10	121-31	5,769	102,241
Mar	-	121-31	-	-	121-31	618	19,506

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol.	Open int.
Sep	131.76	131.68		131.76	131.51	3539	n/a
Dec	131.50	131.43		131.50	131.30	850	n/a

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

Ecu

ECU BOND FUTURES (MATIF) Ecu100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	-	103.74	+0.28	-	-	0	18

US CORPORATE BONDS

Jul 14	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
UTILITIES								
Pac Bell	07/02	7.25	AA-	104.2656	6.02	+0.02	+0.11	+0.85
NY Tel	06/25	7.00	A+	100.7095	6.94	+0.03	+0.07	+1.23
CWE	[illegible]	8.00	BBB	110.6310	[illegible]	+0.06	+0.10	+1.01
FINANCIALS								
GECC	05/07	8.75	AAA	116.1629	6.06	+0.07	+0.06	+0.56
Banc One	08/02	7.25	A+	104.0365	6.10	+0.01	+0.09	+0.64
US West	01/07	7.50	BBB	105.5437	6.44	-	+0.26	+0.96
INDUSTRIALS								
WMX Tech	04/00	6.25	BBB+	100.1008	6.08	-0.02	+0.09	+1.01
Wal Mart	05/02	6.75	AA	102.6578	5.90	+0.02	+0.14	+0.44
Dayton Hud	09/21	9.70	BBB+	134.4227	6.73	+0.04	+0.11	+1.08
AGENCIES								
FHLMC	04/07	7.14	NA	103.1559	5.76	+0.02	+0.05	+0.20
SLMA	03/09	7.50	NA	102.9048	5.62	+0.01	+0.04	+0.17
FNMA	02/18	8.95	NA	133.4593	6.01	+0.03	+0.05	+0.20
FFCB	06/05	[illegible]	NA	120.1001	5.73	+0.02	[illegible]	+0.25
HIGH YIELD								
[illegible]	02/01	9.88	B	102.7500	0.00	-	-	-
AK Stl	12/01	9.13	BB-	105.2500	0.00	-	-	-
Pacalis	06/04	10.75	B-	101.2500	0.00	-	-	-

NY closing. Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information.

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	-	Two year	5.44
Prime rate	8½	Two month	-	Three year	5.47
Broker loan rate	7¼	Three month	5.13	Five year	5.46
Fed.funds	5⅝	Six month	5.26	10-year	5.49
Fed.funds at intervention	-	One year	5.33	30-year	5.72

INTERNATIONAL BONDS

Jul 16	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
EURO DM								
EIB	03/07	5.750	AAA	106.3400	4.83	-	+0.01	+0.11
Spain	01/07	5.750	AA	[illegible]	4.83	-0.01	-0.03	+0.11
Philip Morris	03/04	6.375	A	101.5000	5.06	+0.02	[illegible]	+0.56
Finland FRN	09/02	3.625	AA	[illegible]	[illegible]	-	-0.03	-0.50
EURO FFR								
[illegible]	01/04	8.500	AAA	104.0800	4.52	+0.01	-0.08	+0.05
Abbey Nat	03/04	6.000	AA	106.6100	4.62	-0.01	-0.08	-0.15
Cred Foncier	02/04	8.125	A	120.0800	4.82	+0.01	-0.08	+0.35
SCF FRN	12/01	[illegible]	AA-	99.9236	4.03	+0.01	-0.09	-0.14
EURO LIRA								
EIB	02/07	7.000	AAA	114.0500	4.94	-0.01	-0.07	+0.02
Abbey Nat	02/02	8.800	AA	106.7200	4.71	+0.01	-0.06	+0.18
Walt Disney	05/00	8.625	A	107.2000	4.61	+0.02	-0.03	+0.22
EIB FRN	03/01	4.882	AAA	100.0579	4.20	-	-0.14	-0.25
EURO £								
EIB	12/07	7.625	AAA	[illegible]	6.23	-0.01	+0.15	+0.33
Dresdner Bk	12/07	7.750	AA-	106.7280	6.75	-0.01	+0.13	+0.83
British Gas	03/00	7.625	A+	99.8866	7.66	-0.03	+0.25	-0.24
Abbey Nat FRN	02/02	7.660	AA	99.9676	6.41	-0.03	+0.23	+0.01
EURO $								
EIB	04/07	7.250	AAA	109.1200	5.88	-	+0.04	+0.41
ABN Amro	06/07	7.125	n/a	105.3422	6.33	+0.01	+0.08	+0.86
Quebec	01/07	7.000	A+	105.0984	6.22	+0.01	+0.09	+0.75
Citicorp FRN	08/04	5.754	A+	100.3917	5.59	-	+0.17	+0.14
EURO C$								
Bayer L-Bk	08/04	9.500	AAA	118.1650	5.85	+0.07	+0.16	-0.21
Toronto	05/04	8.500	AA+	112.9902	5.81	+0.07	+0.14	+0.17
Bell Canada	07/09	10.625	A+	104.5277	5.75	[illegible]	+0.07	+0.96
Deutsche B FRN	09/02	3.875	AAA	[illegible]	5.78	+0.07	+0.12	+0.16
EURO YEN								
World Bank	03/02	5.250	AAA	115.3367	0.98	+0.04	+0.16	-
Spain	03/02	5.750	AA	117.0767	0.99	+0.04	+0.16	+0.01
Cred Foncier	08/02	4.750	A	112.9303	1.44	+0.04	+0.18	+0.45
Italy FRN	07/99	0.711	AA	[illegible]	0.19	+0.02	+0.07	-0.32

London closing. Source: Interactive Data/FT Information. Standard & Poor's ratings. Yields: Local market standard/annualised basis.

UK BONDS

FTSE Actuaries Govt. Securities

Price Indices UK Gilts	Thu Jul 16	Day's change %	Wed Jul 15	Accrued interest	xd adj. ytd
1 Up to 5 years (19)	118.46	0.08	118.36	2.02	5.76
2 5-15 years (19)	161.73	0.12	161.39	1.93	6.35
3 Over 15 years (9)	204.97	-0.10	205.17	2.32	6.32
4 Irredeemables (4)	280.63	-0.30	281.42	[illegible]	7.46
5 All stocks (48)	154.49	0.05	154.42	2.10	6.28

UK Indices

Yield	Low coupon Jul 16	Low coupon Jul 15	Low coupon Yr. ago	Medium coupon Jul 16	Medium coupon Jul 15	Medium coupon Yr. ago	High coupon Jul 16	High coupon Jul 15	High coupon Yr ago
5 yrs	6.26	6.29	7.00	6.32	[illegible]	7.06	6.25	6.27	7.12
15 yrs	5.61	5.61	7.00	5.74	5.74	7.07	5.81	5.79	7.12
20 yrs	5.55	5.54	7.00	5.70	5.69	7.07	5.80	5.78	7.13
Irred.†	5.78	5.77	7.16						

Index-linked	Thu Jul 16	Day's change %	Wed Jul 15	Accrued interest	xd adj. ytd		Inflation 5% Jul 16	Jul 15	Yr. ago	Inflation 10% Jul 16	Jul 15	Yr. ago
6 Up to 5 years (2)	218.17	0.04	218.08	1.27	3.13	Up to 5 yrs	2.98	2.99	3.57	2.26	2.27	2.81
7 Over 5 years (11)	234.70	0.06	235.02	0.99	4.27	Over 5 yrs	2.58	2.58	3.60	2.37	2.37	3.41
8 All stocks (13)	231.44	0.05	231.76	1.04	4.05							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Jul 16	Jul 15	Jul 14	Jul 13	Jul 10	Yr ago	High*	Low*
Govt. Secs. (UK)	104.95	105.25	105.23	105.43	97.08	105.73	93.21	

	Jul 16	Jul 15	Jul 14	Jul 13	Jul 10	Yr ago	High*	Low*
Fixed Interest	143.49	144.14	144.14	143.96	144.14	125.15	146.76	115.32

* for 1998. Government Securities high since compilation: 127.40 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 146.76 (15/07/98), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

UK GILTS PRICES

[illegible]
[illegible]

Other Fixed Interest

[illegible]
[illegible]

† Tax free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Prospective real redemption rate on projected inflation of (1) 5% and (2) 3%. (b) Figures in parentheses show RPI base for indexing (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in February 1987. Conversion factor 3.945. RPI for November 1997: 159.6 and for June 1998: 163.4.

Yen rises

CURRENCIES & MONEY

Yen rises on hopes of new Japan PM

MARKETS REPORT

By Daniel Dombey

The race for the Japanese premiership became a real contest yesterday and the yen benefited as a result.

Up to now, the markets have not been quite sure what to make of the recent defeat of the ruling Liberal Democratic party in elections to the upper house and the subsequent resignation of Ryutaro Hashimoto, the outgoing prime minister.

But the yen edged up on news of the likely battle for the LDP leadership, ending European trading hours at Y139.8 against the dollar, compared with Y140.4 the day before.

"The market is now taking the view that the election result was a blessing in disguise," said Gerard Lyons at DKB International in London. "With a fight to become prime minister, whoever wins will be forced to carry out more change than otherwise would be the case."

Word leaked out yesterday that Seiroku Kajiyama, who is thought to favour financial reform, is poised to run for the LDP leadership. He would challenge Keizo Obuchi, the current foreign minister, who is generally considered to be more conservative.

However, Tony Norfield at ABN-Amro in London warned that the dollar was still likely to appreciate unless a credible programme of financial reform was enacted soon.

The market remains split between institutions which believe the yen could weaken to at least Y160 and those which forecast a rally to the mid Y120s.

But the yen's greater stability over the last month has gradually inspired greater caution. The currency has remained in the Y137-143 range for almost all of the time since the US Federal Reserve and the Bank of Japan intervened to support it on June 17.

■ Worries about the UK economy's health caught the markets' imagination yesterday and the country's high interest rates were unable to stop the pound from falling.

Sterling ended European trading at DM2.934 against the D-Mark, compared with D2.945 the day before. It has now lost almost nine pfennigs in two weeks. The process has been speeded up by dollar weakness against the D-Mark, since the UK and US currencies often move in sympathy with each other.

Figures from the British Chambers of Commerce showed declining sales for both the service and manufacturing industries. Fears of an economic slowdown grew a little worse as a result.

"What is beginning to happen is the break-down of the previous relationship where high interest rates kept sterling stronger," said Mr Norfield. "High rates will boost the currency when there is a strong economy behind it, but that won't necessarily be the case from now on."

Short sterling future contracts rose marginally yesterday, but still almost price in one further 25 basis point rise in rates this year.

■ Despite a brief scare in Russia, the D-Mark ended the European day more than a pfenning up against the dollar, at DM1.792.

The D-Mark has recently found it difficult to strengthen much beyond DM1.80. But it climbed as high as DM1.785 before sagging when Russia's Duma initially baulked at a sales tax aimed at improving the country's finances.

The relationship between German banks and Russia has come to bear considerable influence on the D-Mark, which appreciated after the recent IMF agreement with Moscow.

■ Currencies throughout Southeast Asia rose sharply on the news from Tokyo yesterday, with the Indonesian rupiah rising 12 per cent against the dollar.

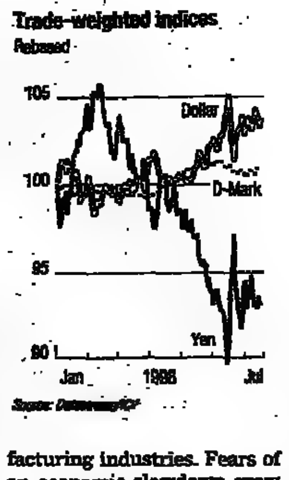
"If dollar/yen begins to steady that helps take emerging markets off the ropes, although it's not the only necessary component," said Mr Lyons. He added US equities had to stay healthy to maintain confidence.

The Czech and Polish central banks both underlined the strength of their countries' currencies with interest rate cuts of 2 and 0.5 per cent respectively. The Polish bank also slowed the rate of the zloty's devaluation to 0.65 per cent a month.

But the South African rand remained troubled, sliding to R6.18 to the dollar.

Trade-weighted indices

Rebased



Source: Datastream/ICV

■ POUND IN NEW YORK

Jul 16	— Latest —	— Prev. close —
£ spot	1.6395	1.6350
1 mth	1.6370	1.6325
3 mth	1.6315	1.6267
1 yr	1.6087	1.6035

■ OTHER CURRENCIES

Jul 16	£	$
Czech Rp	52.2758 - 52.3694	31.9000 - 31.9200
Hungary	355.775 - 356.205	217.320 - 217.490
Iran	4913.40 - 4911.30	3000.00 - 3000.00
Kuwait	0.5021 - 0.5026	0.3067 - 0.3069
Peru	4.7623 - 4.7709	2.9090 - 2.9130
Poland	5.6662 - 5.6733	3.4550 - 3.4640
Russia	10.1582 - 10.1675	6.2050 - 6.2080
U.A.E.	6.0126 - 6.0158	3.6727 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

Jul 16		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	20.6432	-0.078	353 - 510	20.6980	20.5891	20.5724	4.1	20.4215	4.3	19.8554	3.8	103.2
Belgium	(BFr)	60.5202	-0.2171	745 - 658	60.7980	60.3120	60.3191	4.0	59.8925	4.1	58.2265	3.8	102.6
Denmark	(DKr)	11.1792	-0.0428	752 - 832	11.2265	11.1504	11.1406	3.8	11.0728	3.8	10.7818	3.6	105.3
Finland	(FM)	8.9199	-0.0326	140 - 268	8.9409	8.8980	8.8886	4.1	8.8277	4.1	8.5823	3.8	81.2
France	(FFr)	9.8317	-0.0435	291 - 342	9.8646	9.8094	9.7974	4.2	9.7263	4.3	9.4533	3.8	106.1
Germany	(DM)	2.9343	-0.0111	332 - 353	2.9420	2.9256	2.924	4.2	2.9008	4.3	2.8213	3.8	104.2
Greece	(Dr)	498.492	-2.274	281 - 703	499.969	497.243	499.552	-1.3	494.769	-3.1	505.769	-1.5	83.3

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jul 16		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan index
Europe													
Austria	(Sch)	12.6069	-0.0781	048 - 090	12.6400	12.5610	12.5852	2.1	12.5419	2.1	12.3799	1.8	103.0
Belgium	(BFr)	36.9600	-0.22	400 - 800	37.0550	36.8400	36.9	1.9	36.7745	2.0	36.29	1.8	102.7
Denmark	(DKr)	6.8272	-0.0423	242 - 302	6.8455	6.8037	6.8184	1.6	6.7992	1.6	6.7100	1.6	104.8
Finland	(FM)	5.4475	-0.0327	450 - 498	5.4615	5.4285	5.4381	2.1	5.4203	2.0	5.351	1.8	80.9
France	(FFr)	6.0043	-0.0407	040 - 045	6.0278	5.9850	5.9938	2.1	5.9723	2.1	5.8917	1.9	105.7
Germany	(DM)	1.7920	-0.011	917 - 922	1.7973	1.7881	1.7906	2.1	1.7825	2.1	1.7584	1.9	103.9

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Sep	Dec	Mar	PUTS Sep	Dec	Mar
92125	0.115			0.070		
92250	0.055	0.160	0.335	0.135	0.190	0.185
92375	0.020			0.225		

Est. vol. total, Calls 10797 Puts 6047. Previous day's open int., Calls 460061 Puts 333111

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	0.5580	0.5615	+0.0036	0.5629	0.5579	12,879	98,620
Dec	0.5643	0.5644	+0.0036	0.5649	0.5643	3	636
Mar	-	0.5632	-	-	-	62	70

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	0.6658	0.6697	+0.0039	0.6706	0.6652	10,221	60,845
Dec	0.6760	0.6759	+0.0044	0.6761	0.6757	127	426
Mar	-	0.6790	+0.0020	0.6790	-	20	17

UK INTEREST RATES

LONDON MONEY RATES

Jul 16	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	8 - 7	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling CDs	-	-	[illegible]	[illegible]	[illegible]	[illegible]
Treasury Bills	-	-	[illegible]	[illegible]	-	-
Bank Bills	-	-	[illegible]	[illegible]	[illegible]	-
Local authority deps.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Discount Market deps	[illegible]	[illegible]	-	[illegible]	-	-

UK clearing bank base lending rate 7½ per cent from Jun 4, 1998

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	4	6.5	6.5	6.25	6.25

Certs of Tax dep. under £100,000 is 4pc. Deposits withdrawn for cash 2pc. Avg. tender rate of discount on Jul 10, 7.1595pc. ECGD fixed rate Stg. Export Finance. Make up day Jun 30, 1998. Agreed rate for period Jul 26, 1998 to Aug 25, 1998, Scheme III 8.57pc. Reference rate for period May 30, 1998 to Jun 30, 1998, Schemes IV & V 7.741pc. Finance House Base Rate 8pc from Jul 1, 1998.

BASE LENDING RATES

	%		%		%
Adam & Company	7.50	Exeter Trust Limited	8.50	●Singer & Friedlander	7.50
Allied Irish Bank (GB)	7.50	Financial & Gen Bank	8.00	●Smith & Williamson	7.50
●Henry Ansbacher	7.50	●Robert Fleming & Co	7.50	Sun Bank	7.50
Banco Bilbao Vizcaya	7.50	●Guinness Mahon	7.50	TSB	7.50
Bank of Cyprus	7.50	Habib Bank AG Zurich	7.50	United Bank of Kuwait	7.50
Bank of Ireland	7.50	●Hambros Bank	7.50	Unity Trust Bank Plc	7.50
Bank of India	7.50	Heritable & Gen Inv Bk	7.50	Whiteaway Laidlaw	7.50
Bank of Scotland	7.50	C. Hoare & Co	7.50	Yorkshire Bank	7.50
Barclays Bank	7.50	Hongkong & Shanghai	7.50		
Brit Bk of Mid East	7.50	Investec Bank (UK) Ltd	7.50		
●Brown Shipley & Co Ltd	7.50	Julian Hodge Bank	7.50		
Citibank NA	7.50	●Leopold Joseph & Sons	7.50		
Clydesdale Bank	7.50	Lloyds Bank	7.50		
The Co-operative Bank	7.50	Midland Bank	7.50		
Coutts & Co	7.50	NatWestminster	7.50		
Cyprus Popular Bank	7.50	●Rea Brothers	7.50		
Duncan Lawrie	7.50	Royal Bk of Scotland	7.50		
		Scottish Widows Bank	7.50		

● Members of London Investment Banking Association

Aluminium groups see success on the crest of a new wave

Not only shipbuilders stand to gain from fast cargo ferries, writes **Kenneth Gooding**

Aluminium and shipping companies will be monitoring a new fast cargo ferry, scheduled to go into operation in three months. The ferry, made totally of aluminium, is capable of carrying 40 big trucks at 43 knots, nearly three times the speed of average roll-on, roll-off vessels.

For shipping companies, the benefits are obvious; for the aluminium groups, success could open a substantial avenue of business for them as the ferries can use up to 400 tonnes of the metal.

The new ferry has been developed by Incat, a Tasmanian company that so far has concentrated on building fast passenger vessels. The latest is a 91m catamaran that can carry 900 passengers and 242 cars.

Their success, however, is not guaranteed. "For fast freight ferries you have to look at the complete transport chain. There is no point in doing the journey in half the time if you have to wait in the harbour to unload.

"You need special loading and unloading concepts to make the speed worthwhile," points out Rolf Kvamsdal, vice-president of research and development for Kvaerner, the Norwegian engineering group.

Nevertheless, the potential is good. Mr Kvamsdal says fast cargo ferries would be ideal for transporting high value but light-weight cargoes, reducing the cost of holding them in the distribution chain. For example, he suggests, ferries between Spain and Italy could carry food and white goods. This would please the European Commission, which is pressing for cargoes to be shifted from land to sea, he says.

Kvaerner has joined with Norsk Hydro, the Norwegian group that includes Hydro Aluminium among its subsidiaries, and Den Norske Veritas, the international standards agency, for a $10m, three-year research programme for improving the use of aluminium in shipbuilding. Aluminium is the preferred construction material for high-speed craft because of its light weight and high strength. Its corrosion resistance makes it an ideal material for use at sea.

The objective of the research programme is to find ways of increasing the strength of aluminium alloys, improving fabrications methods, cutting costs and opening new markets.

Kvaerner's interest stems from the fact that its Masa yards in Finland use tonnes of aluminium in its new Eagle class cruise ships for Carnival Line, while its Fjellstrand yard in Norway has been building fast passenger ferries for years.

Fjellstrand was the first to use a technique called friction stir welding to assemble aluminium panels. Ivar Myklebost, managing director, says this not only saves weight and assembly time but adds a better finish. He hopes to reduce by 30 per cent the man hours needed to build one of the big fast ferries in which Fjellstrand specialises.

The latest, just delivered, will carry more than 300 passengers across the Red Sea between Egypt and Saudi Arabia in three hours.

DNV's head of information, Ole Lunde, says the maritime rules had to be rewritten for fast ferries to operate. Among other things, they need two navigators to make sure they stay on course.

Aluminium craft have been in service for more than 30 years without showing signs of metal fatigue problems, he points out.

Maintenance costs have been limited to the repair of local details and no fast ferry has sunk, not even after a nasty collision. "DNV is determined to maintain a long fatigue life for aluminium constructions to avoid any negative effect on the use of the material," he says.

Most fast ferries have been built in Europe and Australia for use in sheltered waters. The builders expect the North American market to open up with legislative changes.

According to Robert Dean, head of Alusuisse Marine, part of the eponymous Swiss group, the number of fast passenger ferries has been growing at more than 6 per cent a year for most of the 1990s and at the end of 1997 there were 1,356 in service.

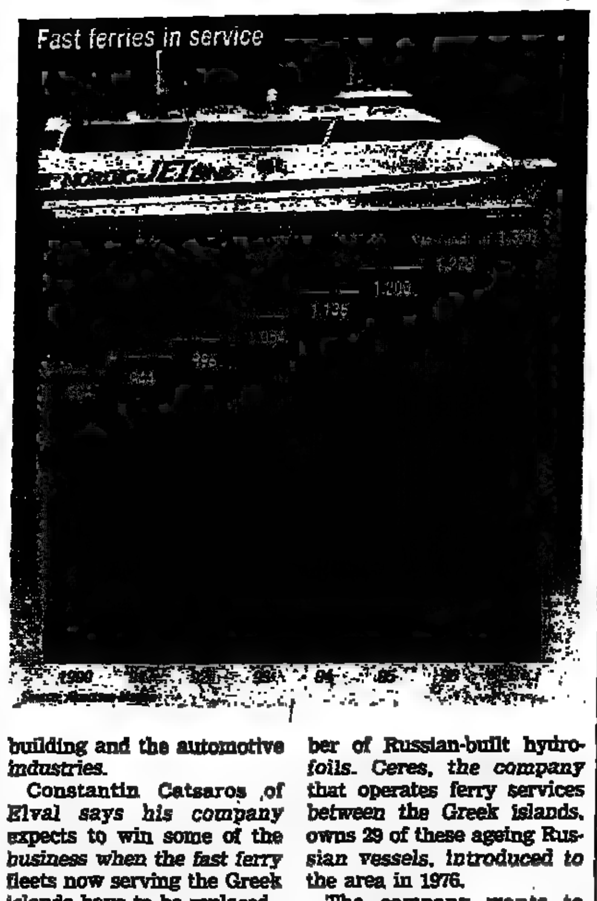
After this hectic growth, however, demand for passenger ferries is likely to fall. The aluminium industry is hoping for a surge in orders for fast cargo ferries to fill the gap. One company that expects to benefit is Elval, the sole Greek producer of aluminium rolled products.

Elval in the past five years has spent $41m to improve and expand its rolling capability and is embarking on a further $46m investment programme to allow the production of new, higher value-added products – including a line for special wide sheets used in shipbuilding and the automotive industries.

Constantin Catsaros of Elval says his company expects to win some of the business when the fast ferry fleets now serving the Greek islands have to be replaced.

It is estimated in the shipping industry that Greeks control 10 per cent of the world's fleet of fast ferries, including a substantial number of Russian-built hydrofoils. Ceres, the company that operates ferry services between the Greek islands, owns 29 of these ageing Russian vessels, introduced to the area in 1976.

The company wants to upgrade its fleet and extend its high-speed services on new routes between the Greek mainland and island destinations.



Opec intentions not enough to halt oil price fall

MARKETS REPORT

By Gary Mead and Nikki Tait

Hopes that the Organisation of Petroleum Exporting Countries' signal to cut 2.6m b/d from their collective crude oil production would return prices to last year's average were dented again yesterday, as Brent crude – one of the international benchmarks – slid on the International Petroleum Exchange in London.

By late trading August-dated Brent had lost 6 cents at $12.84 a barrel, almost $1 lower than when the June deal was signed. The average in 1997 was $19.30, but so far this year it has been only slightly above $14.

Behind the bearish sentiment are fears over Asia's economic slowdown and huge global inventories of crude and gasoline.

In related oil news, Arthur Andersen reported that combined exploration and appraisal drilling in the UK offshore sector was 34 per cent lower in the first half of 1998 against the same period for 1997, while such activity in Denmark, Ireland, the Netherlands and Norway was collectively 66 per cent down.

Trading in soft commodities on the London International Financial Futures and Options Exchange was again slow, with September coffee ending just $1 softer at $1,540 a tonne. Colombia's National Coffee Exporters Association said it did not expect US roasters to resume buying in quantity until the price fell below $0.90 a pound, as the threat of over-supply from Brazil and elsewhere hangs heavy over the market. On New York's Coffee, Sugar and Cocoa Exchange, the September contract was at a new low of 108.50 cents a pound at midday, 0.50 cents lower.

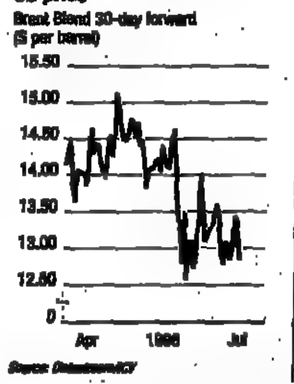
The London Metal Exchange was again subdued although three-months copper managed a mini-surge towards the end of business, closing $21 higher at $1,698 a tonne. All other base metals ended slightly higher save for tin, down $5 at $5,490 a tonne.

Wheat futures prices rose modestly following President Clinton's exemption of export credits for farm sales from US sanctions – imposed on India and Pakistan – and on the revival of weather-related fears. The September contract on the Chicago Board of Trade gained 3 cents at $2.72.

Forecasts of hot conditions over the weekend in key Midwest grain-growing regions also lifted maize and soyabean futures. The July soyabean contract at midday was up 11 cents at $6.52.

Oil price

Brent Blend 30-day forward ($ per barrel)



Source: Datastream/ICV

NEWS DIGEST

PORTUGAL

Cereal crop production 'worst for 100 years'

Bad weather in Portugal has wrecked this year's cereals crop, boosting the need for imports, the national farmers' body said yesterday. Output of wheat, the main grain produced in Portugal, was expected to stand at just 50,000 tonnes in 1998, well below the annual average of 394,000 tonnes in 1991-95, Jose Manuel Casqueiro, secretary general of the Confederation of Portuguese Farmers, said. Most of the crop has already been harvested.

Jose Andrade, CAP president, said: "This is the worst production we have seen in the past 100 years." CAP said Portugal's wheat production in 1998 was the lowest since statistics were first compiled in 1908.

Mr Casqueiro said a combination of heavy rains during seeding from November to January and unseasonable rains and hail storms in May in the main growing Alentejo region had severely damaged the crops.

The devastated Portuguese autumn/winter cereals crops contrast with large harvests in France, Britain and Spain.

Portugal was expected to produce just 20,000 tonnes of barley in 1998, compared with an average of 70,000 tonnes a year from 1991-95, he said.

Local grain traders said the prices of cereals imported to Portugal in the past week were steady. Imported feed wheat free-on-truck Lisbon traded unchanged from last week at Es26,300 per tonne.

Mr Casqueiro said conditions for Portugal's maize crop were very good because there was plenty of water in the fields in the main Ribatejo growing region. He forecast domestic maize production of 400,000-450,000 tonnes this year. Grain traders estimate Portugal's total consumption need of maize at about 770,000 tonnes. Reuters, Lisbon

LA NIÑA

S E Asia faces heavy rains

Consensus is growing among meteorologists that a La Niña weather pattern will form late this year, bringing unusually heavy rain to parts of south-east Asia. "The region's weather is returning back to normal, but we are likely to have La Niña in November or December," Wong Teo Suan, a deputy director of the Singapore Meteorological Service said yesterday.

Last week the SMS said it was uncertain if La Niña would follow its opposite number El Niño, which brought drought to much of south-east Asia last year. It brings reverse weather conditions to El Niño. Areas blighted by El Niño-generated drought, such as south-east Asia, tend to get unusually heavy rains and sometimes floods.

Lars Olsson, acting director of World Meteorological Organisation World Climate Programme, said last week in Geneva that La Niña was already developing and could bring heavy rains to south-east Asia within the next few months.

"La Niña is developing quickly. This one seems more intensive than what we have seen before," he said.

SMS was less sure, but said there was growing agreement among weather experts that La Niña would make its appearance later this year. It said the main impact of La Niña would be on Australia and parts of Indonesia such as Kalimantan, Irian Jaya and Celebes, where more rain than usual was likely. Reuters, Singapore

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1309.5-10.5	1333.5-4.0
Previous	[illegible]	1307-08
High/low		1339/1320
AM Official	1314-15	1335.5-36.0
Kerb close		1330-31
Open int.	n/a	
Total daily turnover	[illegible]	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1255-65	1195-200
Previous	1245-48	1186-90
High/low		1202/1190
AM Official	1267-70	1198-200
Kerb close		1198-9
Open int.	n/a	
Total daily turnover	1,631	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	[illegible]	547-8
Previous	541-2	537-38
High/low		550/540
AM Official	549-50	546.5-47.0
Kerb close		[illegible]
Open int.	n/a	
Total daily turnover	7,670	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	4350-60	4410-20
Previous	4215-25	4280-90
High/low		4460/4360
AM Official	[illegible]	[illegible]

[illegible]

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	293.4	-0.4	-	-	-	-
Aug	294.0	-0.5	296.1	293.0	-	77,459
Oct	296.3	-0.5	[illegible]	[illegible]	-	8,310
Dec	298.3	-0.6	300.5	297.8	-	23,301
Feb	300.1	-0.6	301.9	300.1	-	13,264
Apr	302.0	-0.4	-	-	-	6,424
Total					34,[illegible]	171,[illegible]

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	402.0	+9.7	393.0	393.0	82	463
Oct	399.0	+8.7	400.0	390.0	1,812	9,670
Jan	398.0	+7.7	397.0	395.0	116	574
Apr	398.0	+7.7	-	-	[illegible]	13
Total					1,[illegible]	10,719

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	337.60	+42.45	346.00	301.20	127	3,320
Dec	323.50	+36.45	330.00	295.00	1	982
Mar	318.50	+38.45	278.00	278.00	-	21
Total					[illegible]	4,323

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	530.4	-0.3	531.0	528.0	-	200
Sep	534.0	-0.3	542.0	529.5	-	42,049
Dec	538.6	-0.3	546.6	534.0	-	22,121
Jan	540.4	-0.3	-	-	-	26
Mar	541.4	-0.3	543.0	543.0	-	3,461
May	543.0	-0.3	-	-	-	1,416
Total					6,000	77,195

ENERGY

[illegible]

PRECIOUS METALS

■ LONDON BULLION MARKET

[illegible]

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	75.00	-	75.25	75.00	64	43
Sep	71.00	-0.80	72.25	72.00	41	184
Nov	73.00	-1.15	74.50	73.00	175	3,531
Jan	75.00	-1.00	76.25	75.00	25	1,364

[illegible]

■ SUGAR '11' CSCE (112,000lbs; cents/lbs) (part)

Nov	109.30	+1.30	109.30	107.60	165	4,948
Jan	112.15	+1.30	112.40	110.90	16	2,459
Mar	114.95	+1.25	114.50	113.70	11	1,511
May	117.75	+1.25	116.70	116.70	10	671
Jul	120.55	+1.25	116.50	116.50	12	13

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1046	+11	1031	1031	12	61
Sep	1076	+11	1082	1058	1,637	38,259
Dec	1105	+11	1105	1086	3,180	41,363
Mar	1124	+9	1130	1111	1,796	37,830

[illegible]

■ FREIGHT (BIFFEX) LIFFE ($10/index point) (part)

Jan	1010	+15	-	-	-	284
Apr	1015	+15	-	-	-	200
Total					166	2,175

	Close	Prev
BFI	845	845

PULP AND PAPER

■ POLPEX OMLX (US$; 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	454.00	-8.00	464.00	447.00	96	507
Dec	470.00	-11.00	479.00	470.00	55	240
Total					151	822

FUTURES DATA

All futures data supplied by CMS.

Wool from Mallett & Co

Holidays increasingly affect the main wool processing countries, where they are often seen as no more than a pause in the struggle for survival. Extended holiday breaks have been indicated in the UK and continental Europe; a result of the prolonged shortage of new orders. Price cutting to maintain machinery activity applies in Australia and South Africa, normally seen as primary markets but also involved in earlier processing. Australia's problems stem from the Asian crisis. Weakness in the wool market is likely to continue, with the present pause in auctions only delaying the impact.

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	62.900	+0.700	63.025	62.075	8,656	37,920
Oct	62.700	+0.325	62.900	62.050	3,731	30,304
Dec	64.225	+0.375	64.425	63.730	1,335	11,841

[illegible]

VOLUME DATA

Open Interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Jul 16	Jul 15	month ago	year ago
1536.8	1539.0	1553.5	1888.3

■ CRB Futures (Base: 1967 = 100)

Jul 16	Jul 14	month ago	year ago
210.14	210.10	-	-

■ GSCI Spot (Base: 1970 = 100)

Jul 15	Jul 14	month ago	year ago
152.36	152.57	149.46	184.99

LME WAREHOUSE STOCKS (tonnes)

Aluminium	-750	to	505,225
Aluminium alloy	+1100	to	57,280
Copper	+150	to	246,950
Lead	+1575	to	105,825
Nickel	+48	to	60,084
Zinc	-1025	to	383,675
Tin	+490	to	5,650

LONDON TRADED OPTIONS

[illegible]

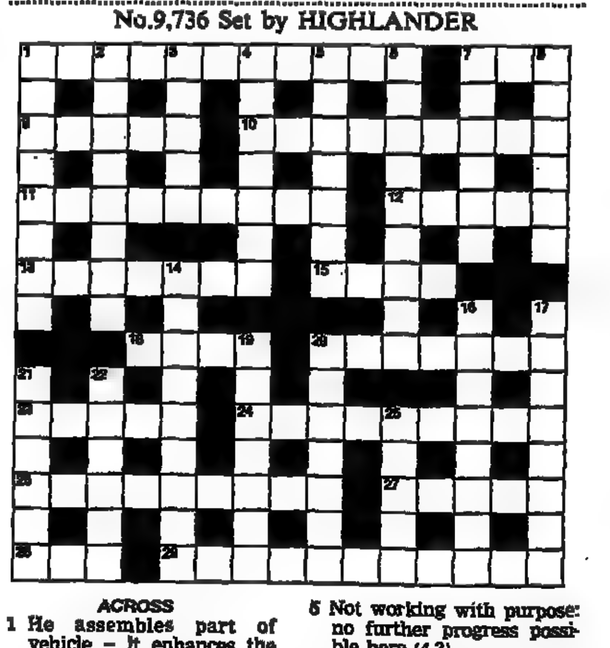
LONDON SPOT MARKETS

[illegible]

JOTTER PAD

CROSSWORD

No.9,736 Set by HIGHLANDER



ACROSS

1 He assembles part of vehicle – it enhances the muscles (4-7)
7 Cut the curtsy (3)
9 A natural swimmer who chose not to abandon his bowling in wartime (5)
10 Unbeaten record – every trick called for (5,4)
11 Get into a muddle before East's deal (9)
12 Avoid publicity during previous day (5)
13 Obtain feathers from duck (3,4)
15 Go steady with the fruit! (4)
18 Wine offers sex appeal twice over (4)
20 Social climber standard on most of the planet (7)
23 American woman's conduct (5)
24 Keep too many on top of trunk (9)
26 Treat roughly a chap with slangy name (9)
27 Put up with assistant's covering note (5)
28 Go in larder having dropped pan (3)
29 How to describe race with extra limb? (5-6)

DOWN

1 Not good time to hold in frivolous banter (8)
2 Quantities of drink required for game played on board (8)
3 Terrible table whine (5)
4 Implant popular cereals (7)
5 Not working with purpose: no further progress possible here (4,3)
6 Dog that's embarrassed crossword compiler (3,6)
7 Song and dance about devolution initially (6)
8 Useless salesman raised unusually large bouncer (6)
14 Man follows old book, watching attentively (9)
16 Live en route as appropriate (8)
17 The better part make beeline for ship's inner wall (8)
19 Properly arranged in class during instruction (2,5)
20 Quietly go back into lead (7)
21 Top it – add 1,000 to begin with (6)
22 Will not start to yodel such a song (6)
25 By the way, beer is flat and tasteless (5)

Solution 9,735

CASANOVA GLOBAL
INDIRECT OBJECT
TACKY OILTANKER
MIGHTY WHITEST
FUNFAIR DANTON
PANATELLA MAPLE
SQUARE BRACKETS
ENSIGN IMMODEST

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OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (FSA RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (FSA RECOGNISED)

Offshore Funds and Insurances

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American Phoenix Investment Portfolios (u)

Bank Von Ernst & Cie AG

Foreign & Colonial Portfolios Fd Sicav(u)

Frontrunner I (u)

Morgan Stanley Sicav

ACM Offshore Funds - Contd.

Credit Suisse Asset Mgmt Funds - Contd.

Merrill Lynch Asset Management - Contd.

UBS AG - Contd.

Finexco International Ltd

Friends Provident International

OFFSHORE INSURANCES

LUXEMBOURG (REGULATED)(**)

ACM Offshore Funds

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FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

	Selling Price	Buying Price	+ or -	Yield Gross
Professional Investment Consultants				
Premier Lux 5	$1.13	1.19	—	—
Royal & Sun Alliance Intl Financial Services				
Royal Court, Athey Rd, Castletown IoM 01624 821212				
Royal Skandia Life Assurance Ltd (z)				
http://www.royalskandia.com 01624 611611				

	Selling Price	Buying Price	+ or -	Yield Gross
Asia Pacific Securities Corp Ltd				
Indian Cash Cos Fd Ltd Jul 13	$8.41		—	—
Asian Convertibles & Income Fd (Cayman)				
NAV Jul 9	$10.19		—	—
Atlantico Investment Ltd				
Atlantic Investment Management, Inc				
Atlantic Fund Management (Guernsey) Ltd				
Atlas Management Limited				
Atlas Real Estate Hedge Fund Limited				
NAV May 31	$719.16		—	—
Aurum Funds				
BEA Associates				
BNP				
Julius Baer Bank & Trust Co Ltd				
Bahia Fund				
Banca Reig, S.A. (Principality of Andorra)				

OTHER OFFSHORE FUNDS

AXA Asset Management

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING MATS. & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Continued

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Continued

ENGINEERING, VEHICLES

ENGINEERING, VEHICLES - Continued

EXTRACTIVE INDUSTRIES

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS & TEXT

HOUSEHOLD GOODS & TEXT - Continued

INSURANCE

INSURANCE - Continued

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Continued

INV TRUSTS SPLIT CAPITAL

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LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Continued

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

Approved by the Inland Revenue

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Continued

OIL EXPLORATION & PRODUCTION

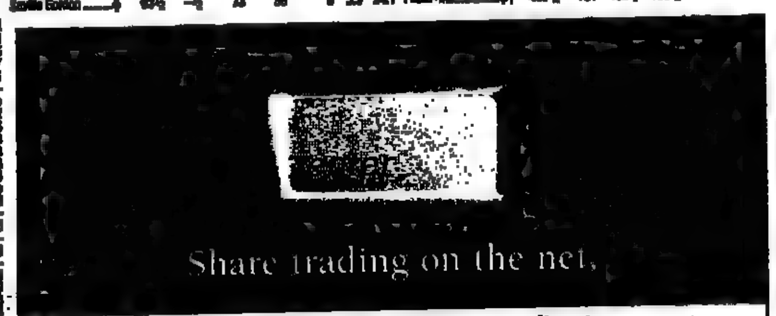
OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY



PROPERTY - Continued

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Continued

SUPPORT SERVICES

SUPPORT SERVICES - Continued

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Continued

WATER

AIM

AIM - Continued

AMERICANS

CANADIANS

SOUTH AFRICANS

TRADED INDEX SECURITIES

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 Index constituents and reserves contained in the Trading Volume table on the LSE page, last trade prices at or prior to 4.30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-price/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IBES 'Headline Earnings' forecasts.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

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The share prices printed on these pages are also available on the Internet at http://www.FT.com.

Interest rate and recession fears upset equities

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

A fresh dose of economic reality drenched London's equity market yesterday, pouring cold water on an early burst of enthusiasm that saw the FTSE 100 index race up to yet another intraday record.

The sharp reversal in UK stocks came in the wake of worse-than-expected public finances and a worrying report from the British Chamber of Commerce, which warned of "meltdown" in the manufacturing sector because of the looming recession and the continuing strength of sterling.

And dealers continued to fret about the possibility of another rise in UK interest rates in the near future – possibly as soon as next month – in the wake of the latest disturbingly high increase in average earnings. Those fears were stoked up by Wednesday's news that average earnings had increased by 5.4 per cent over the year to April, well above forecasts.

Not even the successful placing of nearly £900m worth of Cable & Wireless stock was able to reassure investors.

The worry about interest rate prospects prompted some dire warnings from stock market observers. The strategy team at BT Alex Brown issued a note headlined "Rates are going up".

The broker said:" Financial markets had taken heart from lower-than-expected inflation data, believing that the risks of higher interest rates had disappeared. Big mistake. The outlook for UK equities is still fraught with considerable danger. Although the economy is slowing, Wednesday's earnings data suggest the labour market is failing to reflect economic reality. On this alone the monetary policy committee will vote to raise rates, while it also implies pressure on profit margins."

The stock market could not sustain its early advance as those predictions swept across the City's dealing rooms. And Wall Street added to the overall uncertainty in London, kicking off the US session with modest gains, only to fall back into negative territory as London closed. The US market rallied again, however, to show a near 50-point advance around an hour after trading London ceased.

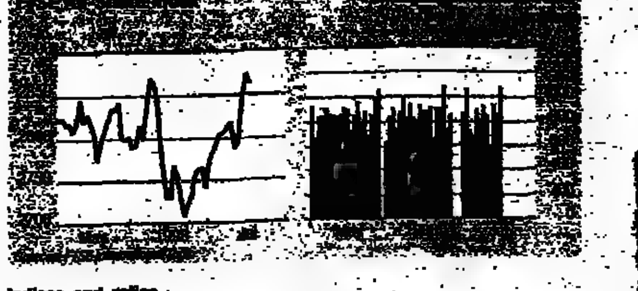
At the finish, Footsie was left with a 34.7 decline at 6,116.8, having swung in a near 100-point arc during the trading session.

At its best, just before the larger-than-expected public sector net cash requirement figure, formerly the public sector borrowing requirement, and the British Chamber of Commerce report, the index was driven to a record 6,180.4 during the first hour.

The two junior indices, the FTSE 250 and SmallCap, were never as volatile as the senior index. The 250 settled 0.6 off at 5,697.1, with minor attempts at a rally easily beaten off by persistent small sellers.

The FTSE SmallCap proved more resilient than of late, and remained in positive ground all day although it never looked like making substantial progress. At the finish, the index was 2.1 ahead at 2,583.7.

Turnover in equities topped the 1bn mark for the first time in weeks, eventually reaching 1.082bn, amid talk that at least one sizeable programme trade had been transacted.



Indices and ratios

FTSE 100	6116.8	-34.7	FT 30	3962.9	-18.9
FTSE 250	5697.1	-0.6	FTSE Non Fins p/e	23.62	23.77
FTSE 350	2942.0	-13.7	FTSE 100 Fut Sep	6120.0	[illegible]
FTSE All-Share	2861.17	-12.42	10 yr Gilt yield	5.84	5.88
FTSE All-Share yield	2.74	2.73	Long gilt/equity yld ratio	2.12	2.12

Best performing sectors

1	Extractive Industries	+3.1
2	Gas Distribution	+1.8
3	Health Care	+0.7
4	Construction	+0.5
5	Tobacco	+0.5

Worst performing sectors

1	Water	-3.5
2	Retailers, Food	-1.7
3	Engineering, Vehicles	-1.6
4	Alcoholic Beverages	-1.3
5	Electronic & Elect Eqip	-1.2

Thames Water plunges

COMPANIES REPORT

By Peter John and Joel Kibazo

Thames Water sank in late dealing, partly because of a downgrade by one US broker.

The shares were down 50 for much of the day as investors responded to a recommendation shift from Morgan Stanley Dean Witter which went to "underperform" from "neutral" on the stock.

Morgan Stanley said that although the profit and dividend outlook remained positive relative to other companies, it did not justify the share price.

Then, shortly before the close, the shares fell further to close 131 off at £10.29. In addition, Severn Trent was suddenly off 71 at £10.01.

The stocks were said to be affected by late anomalous trades going through the electronic trading system just before the close.

"Interestingly, the shares have hit my 12-month price target on the day the note came out," said James Hutton-Mills at Morgan Stanley.

Elsewhere, Wessex slipped 7½ to 489p and Anglian, recently highlighted by Ofwat, the regulator, as one of the few companies not to meet their leakage targets for this year, fell 12 to 888p.

Merrill Lynch, the bear of the sector, has a sell note on the stock. The broker says: "The surprisingly robust share price performance looks at odds with the threat of a tough periodic review."

The market's appetite for Cable & Wireless was on display yesterday after a share placing, said to be the largest ever seen in the UK, was taken up within minutes.

Early in the day, Cable & Wireless confirmed it was buying the internet businesses of US group MCI Communications for $1.75bn. ABN Amro and Cazenove, acting for the UK telecommunications group, then quickly moved into the market to place 112m shares to help fund the acquisition.

Such was the institutional demand for stock that the 800p-a-share placing (at a discount to the previous day's closing share price) was said to have been completed in 35 minutes and raised about £867m net of expenses.

"This is a deal the institutions have decided they need to be a part of," said one specialist on the sector.

On an otherwise poor day in the market, the shares recovered from an initial retreat to 810p to close 2 off at 840p. Brisk buying brought volume of 18m which made it the most actively traded stock in the FTSE 100.

Leading tobacco stocks, which are already trading around their 52-week highs, moved forward in response to a "buy" note from Charterhouse Tilney.

The broker says increased regulatory pressures are already discounted in share prices and both Gallaher and Imperial are working on margin improvement and international expansion.

Target rating

"With the market turning towards defensive stocks, this and a number of other factors lead us to believe that a target rating of 12 times 1999 earnings for both Gallaher and Imperial is by no means demanding. This suggests further upside of 15 per cent to 20 per cent," says the broker.

Gallaher rose 4¼ to 368½p but Imperial, recently boosted by the Douwe Egberts tobacco acquisition, dipped 5 to 490p. BAT Industries lifted 4 to 715½p.

Hardy Oil & Gas moved forward 9 to 221½p as dealers responded to press comment that, on a 19 per cent discount to net asset value, Hardy was the company in the exploration and production sector most vulnerable to a takeover.

BG rose 12 to 387p in response to news of the financing of its joint venture in Italy. Salomon Smith Barney reiterated its positive stance and Williams de Broe moved to "hold" from "sell".

Shares in cables group BICC moved against the market trend to close 9½ ahead at 139½p, the best performer in the FTSE 250, as Pirelli's acquisition of Siemens' cables business raised hopes of further consolidation in the cables industry.

Late on Wednesday, the Italian company announced it was buying Siemens' worldwide power cables business for DM500m.

BICC has underperformed the market for much of this year and some dealers suggested yesterday's move in the stock was little more than "opportunistic buying".

An analyst warned: "Anybody looking to buy BICC would have to consider the company's construction business. It is a poison pill. It has little or no assets so all a buyer would be getting is contracts."

The news that British Telecommunications could announce an alliance with one of four US companies by the end of the month did little to deter profit-taking. The shares surrendered 10 to 807p.

BT was reported to have narrowed its choice of potential allies to Bell Atlantic, AT&T, Qwest Communications International and Sprint. It has been seeking a US partner since the collapse of its proposed merger with MCI Communications.

Colt Telecom Group gained 65 to 233.27½ as the market appreciated the news that it had acquired Imagi-Net, France's number one independent corporate internet service provider.

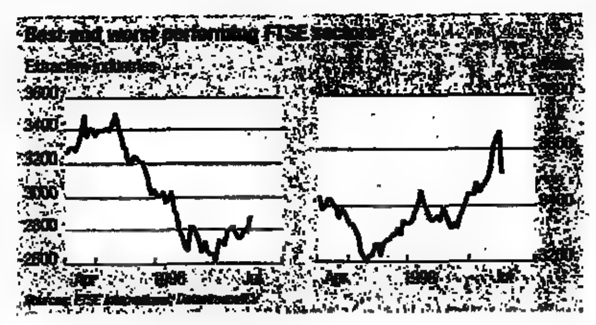
Sun Life & Provincial fell sharply at one stage in reaction to a disappointing 3 per cent increase in first-half new business. Several brokers were said to be negative on the stock but the shares rallied to end a net 5½ off at 582½p.

EMI put on a comparatively sprightly performance ahead of the media group's annual meeting today. The shares rose 3 to 515p with some support from Panmure Gordon. The broker highlighted the stock's 27 per cent underperformance against the market over the past year. And, in its latest sectoral guide to fair values, it published a price target of 567p. The stock has also been buoyed by US buying.

Reuters retreats

Reuters fell 22 to 682p as the technical analysts at Robert Fleming Securities pointed out that the stock had broken down to a three-month relative low and was a chart "sell". The shares have been affected by a couple of broker forecast revisions over the past few days.

In the paper and packaging sector, David S Smith crumpled after it revealed halved results for the full year and warned that the second half had been disappointing. The shares fell 12 to 202½p.



FT 30 INDEX

	Jul 16	Jul 15	Jul 14	Jul 13	Jul 10	Yr ago	*High	*Low
FT 30	3962.9	3981.8	3956.3	3904.9	3898.9	3128.1	3981.8	3946.3
Ord. div. yield	2.75	2.73	2.75	2.79	2.80	3.51	4.22	2.73
P/E ratio net	24.42	24.56	24.42	24.00	23.91	18.93	25.41	15.80
P/E ratio nil	24.32	24.48	24.32	23.90	23.81	18.74	25.19	15.71

FT 30 since compilation: high 3920.3 11/05/98; low 49.4 26/06/40. Base Date 1/7/35.

FT 30 hourly changes

Open	9	10	11	12	13	14	15	16	High	Low
3981.8	3976.7	3978.1	3982.3	3971.9	3972.9	3969.5	3967.4	3965.1	3995.9	3946.3

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STOCK MARKET TRADING DATA

	Jul 16	Jul 15	Jul 14	Jul 13	Jul 10	Yr ago
SEAQ bargains	64,801	76,329	78,291	67,981	65,842	24,016
Equity turnover (£m)†	-	3098.8	3850.2	2546.0	3087.0	1638.6
Equity bargains†	-	60,164	55,605	48,084	47,937	29,494
Shares traded (m)†	-	765.1	1052.5	697.1	755.9	640.6
Total market bargains‡	-	76,674	76,342	59,100	68,247	-
Total turnover (£m)‡	-	4420.8	5003.6	3424.8	4328.1	-
Total shrs traded (m)‡	*1082.0	1033.8	1320.0	891.0	1014.2	-
Tradepoint turnover (£m)	15.9	18.6	17.8	15.3	16.7	8.3
Tradepoint shrs traded(m)	6.1	5.8	6.6	4.8	6.5	1.7

†Excluding intra-market and overseas turnover but including Crest turnover. ‡UK only total at 5pm. ‡ UK plus intra-market turnover.

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	646	Total Highs	77	Total contracts	52,892
Total Falls	782	Total Lows	57	Calls	29,400
Same	1,552			Puts	23,492

Jul 16 *Data based on Equity shares listed on the London Share Service.

CONTRACTS & TENDERS

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	6203.0	6131.0	-38.0	6234.0	6133.0	30690	179929
Dec	6257.0	6247.0	-38.0	6257.0	6248.0	515	3895
Mar		6323.0	-38.0			0	970

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

Sep		5754.0	+18.0			0	3883

■ FTSE 100 INDEX OPTION (LIFFE) (*6104) £10 per full index point

[illegible]

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

FTSE GOLD MINES INDEX

[illegible]

FTSE Actuaries Share Indices — The UK Series

	Jul 16	Day's chge%	Jul 15	Jul 14	Year ago	Gross yield%	Net yield%
FTSE 100	6116.8	-0.6	6151.5	6100.2	4940.0	2.89	2.29
FTSE 250	5697.1	—	5697.7	5656.1	4600.1	2.90	2.46
FTSE 250 ex Inv Tr	5738.3	—	5727.4	5666.9	4494.4	2.99	2.54
FTSE 350	2942.0	-0.6	2955.7	2931.3	2369.0	2.72	2.30
FTSE 350 ex Inv Tr	2946.5	-0.5	2960.5	2936.6	2378.0	2.74	2.31
FTSE 350 Higher Yield	2839.0	-0.5	2854.5	2828.0	2293.9	3.72	3.15
FTSE 350 Lower Yield	3046.6	-0.4	3058.5	3037.0	2449.4	1.93	1.62
FTSE SmallCap	2583.74	+0.1	2581.58	2576.76	2201.51	3.06	2.50
FTSE SmallCap ex Inv Tr	2557.39	+0.1	2555.05	2554.91	2160.10	3.30	2.69
FTSE All-Share	2861.17	-0.4	2873.60	2851.39	2311.59	2.74	2.29

■ FTSE Actuaries Industry Sectors

	Jul 16	Day's chge%
30 CONSUMER GOODS(91)	6073.36	-0.4
32 Alcoholic Beverages(6)	4172.94	-1.3
33 Food Producers(25)	4148.00	-1.2
34 Household Goods & Textiles(24)	3248.14	-0.3
36 Health Care(13)	2542.55	+0.7
37 Pharmaceuticals(20)	10110.57	-0.2
38 Tobacco(3)	5893.41	+0.5
40 SERVICES(279)	3767.59	-0.4
41 Distributors(28)	2527.21	-0.4
42 Leisure & Hotels(27)	3836.21	+0.1
43 Media(41)	4812.96	-0.6
44 Retailers, Food(13)	3169.53	-1.7
45 Retailers, General(45)	2298.93	-0.4
46 Telecommunications(10)	4895.98	-0.4
47 Breweries, Pubs & Rest.(24)	4209.22	-0.6
48 Support Services(84)	5394.54	+0.3
49 Transport(24)	4103.98	—
60 UTILITIES(22)	4119.11	-1.1
62 Electricity(8)	4548.65	-1.0
64 Gas Distribution(2)	3297.60	+1.8
68 Water(12)	3521.48	-3.5
69 NON-FINANCIALS(696)	2903.29	-0.4
70 FINANCIALS(106)	5544.55	[illegible]
71 Banks, Retail(12)	8026.88	-0.4
73 Insurance(16)	2540.51	-0.5
74 Life Assurance(6)	7406.20	-0.9
77 Other Financial(25)	4813.19	-0.2
79 Property(48)	2081.85	-0.2
80 INVESTMENT TRUSTS(114)	4044.49	—
89 FTSE All-Share(882)	2861.17	-0.4
105 FTSE All-Share ex Inv Tr(736)	2867.98	-0.4
Information Technology	1855.17	+0.5
FTSE Fledgling	1414.65	—
FTSE Fledgling ex Inv Tr	1432.14	—
FTSE AIM	1088.0	-0.3

■ Hourly movements

	Open	9.00	10.00
FTSE 100	–	6149.1	6158.8
FTSE 250	–	5698.6	5697.6
FTSE 350	–	2954.7	2958.6
FTSE SmallCap	2581.77	2582.08	2582.78
FTSE All-Share	–	2872.66	2876.32

Further information is available on http://www.ftse.com

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† Sector P/E ratios greater than 80 are not shown. ‡ Values are negative.

FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks yesterday

[illegible]

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Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jul 16 / Sch)

BELGIUM/LUXEMBOURG (Jul 16 / Frs.)

CZECH REP (Jul 16 / Koruna)

DENMARK (Jul 16 / Kr)

FINLAND (Jul 16 / Mks)

FRANCE (Jul 16 / Frs.)

GERMANY (Jul 16 / Dm.)

GREECE (Jul 16 / Drachmae)

ITALY (Jul 16 / Lire)

NETHERLANDS (Jul 16 / Fls.)

NORWAY (Jul 16 / Kroner)

POLAND (Jul 16 / Zloty)

PORTUGAL (Jul 16 / Escudo)

SPAIN (Jul 16 / Pts.)

SWEDEN (Jul 16 / Kronor)

SWITZERLAND (Jul 16 / Frs.)

TURKEY (Jul 16 / Tk Lira)

PACIFIC

JAPAN (Jul 16 / Yen)

HONG KONG (Jul 16 / H.K.$)

INDONESIA (Jul 16 / Rupiah)

MALAYSIA (Jul 16 / MYR)

NEW ZEALAND (Jul 16 / NZ $)

SINGAPORE (Jul 16 / S$)

SOUTH KOREA (Jul 16 / Won)

TAIWAN (Jul 16 / TW $)

THAILAND (Jul 16 / Baht)

AUSTRALIA (Jul 16 / Aust$)

AFRICA

SOUTH AFRICA (Jul 16 / Rand)

AMERICAS

CANADA

TORONTO (Jul 16 / Can $) 3:30 pm

MONTREAL (Jul 16 / Can $) 3:30 pm

MEXICO (Jul 16 / Peso) 12:30 pm

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	WEDNESDAY JULY 15 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	TUESDAY JULY 14 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (72)	200.06	0.8	181.55	177.59	187.53	213.33	0.8	3.77	198.37	179.58	175.06	185.51	211.70	240.60	173.27	228.55
Austria (23)	233.83	0.0	212.20	207.57	219.18	219.03	0.2	1.55	233.88	211.72	206.39	218.72	218.56	253.73	181.60	198.98
Belgium (22)	392.52	-0.1	356.21	348.43	367.93	359.90	0.2	1.90	392.71	355.51	346.55	367.25	359.21	392.71	234.33	249.76
Brazil (26)	229.99	0.2	208.71	204.16	215.58	491.50	0.0	2.08	229.62	207.87	202.63	214.74	491.65	309.20	184.94	278.58
Canada (120)	231.30	-0.5	209.90	205.32	216.81	248.60	-0.2	1.63	232.46	210.44	205.14	217.39	249.03	248.78	199.10	218.33
Denmark (34)	534.06	0.8	484.65	474.07	500.60	498.97	1.0	1.30	529.69	479.78	467.69	495.63	494.04	534.06	375.32	404.34
Finland (28)	481.47	1.2	436.93	427.39	451.31	553.75	1.5	1.66	475.51	430.46	419.62	444.68	545.70	481.47	267.59	300.40
France (79)	338.74	2.1	307.40	300.69	317.52	321.21	2.3	1.84	331.68	300.26	292.69	310.18	313.97	338.74	217.40	230.07
Germany (58)	318.07	-0.1	288.64	282.34	298.14	298.14	0.7	1.12	318.54	288.37	281.10	297.89	297.89	318.54	204.89	227.22
Greece (37)	309.54	-0.1	280.90	274.77	290.15	686.60	0.7	1.41	309.70	280.36	273.30	289.62	681.98	313.18	260.24	-
Hong Kong, China (66)	245.08	2.3	222.38	217.53	229.70	243.81	2.3	6.42	239.51	216.82	211.36	223.98	238.25	580.03	218.78	538.51
Indonesia (27)	30.54	0.1	27.72	27.11	28.63	270.78	-0.8	2.49	30.50	27.61	26.92	28.52	272.26	240.26	23.58	240.26
Ireland (16)	551.67	0.2	500.64	489.71	517.11	557.12	0.5	1.75	550.38	498.22	485.67	514.68	554.47	560.44	359.60	364.93
Italy (54)	176.36	0.2	160.05	156.56	165.31	234.12	0.4	1.26	176.01	159.34	155.32	164.60	233.20	177.15	95.46	99.11
Japan (480)	94.54	0.2	85.79	83.92	88.62	83.92	0.8	0.94	94.39	85.45	83.30	88.27	83.30	138.03	83.04	135.65
Malaysia (106)	112.46	3.1	102.05	99.82	105.41	179.52	2.8	3.51	109.10	98.77	96.28	102.03	174.71	479.63	107.51	473.33
Mexico (29)	1479.67	-1.3	1342.78	1313.47	[illegible]	14316.88	-1.4	1.90	1499.75	1357.67	1323.47	1402.53	14520.83	1901.98	1278.19	1682.22
Netherlands (20)	544.57	0.4	494.19	483.40	510.46	505.15	0.6	1.85	542.57	490.99	478.62	507.21	502.00	544.57	385.58	418.53
New Zealand (14)	64.86	1.0	58.86	57.57	60.79	65.77	0.9	4.63	64.22	58.14	56.68	60.06	65.15	95.87	56.33	91.56
Norway (38)	307.58	0.8	279.13	273.05	288.32	319.12	0.8	1.98	305.05	276.15	269.20	285.28	316.60	374.64	281.62	316.21
Philippines (22)	74.58	1.6	67.68	66.19	69.89	154.95	1.2	1.10	73.35	66.40	64.73	68.60	153.17	153.54	57.54	144.15
Portugal (17)	292.85	-0.3	265.76	259.96	274.51	369.72	-0.1	0.94	293.67	265.85	259.15	274.63	370.17	298.39	261.25	-
Singapore (42)	147.93	2.9	134.25	131.32	138.67	115.69	3.0	2.60	143.83	130.20	126.92	134.51	112.18	390.51	133.81	377.05
South Africa (40)	232.52	0.3	211.01	206.40	217.95	311.67	2.4	2.88	231.73	209.78	204.49	216.71	304.40	361.55	213.50	357.54
Spain (31)	404.93	-1.0	367.46	359.44	379.56	469.35	-0.7	1.62	408.84	370.10	360.78	382.33	472.81	408.84	256.28	263.41
Sweden (49)	614.16	1.1	557.34	545.18	575.69	730.71	1.1	1.60	607.18	549.66	535.81	567.82	722.62	615.21	439.98	504.05
Switzerland (28)	422.49	-0.3	383.40	375.05	396.02	397.08	-0.3	1.05	423.77	383.63	373.96	396.30	398.31	423.77	285.85	318.48
Thailand (38)	13.37	5.8	12.13	11.87	12.53	21.48	6.0	4.28	12.64	11.44	11.15	11.82	20.26	65.78	11.66	60.23
United Kingdom (203)	392.90	0.6	356.55	348.78	368.28	356.55	0.9	2.79	390.52	353.52	344.62	365.20	353.52	401.84	303.41	320.92
USA (629)	481.13	-0.2	436.62	427.09	450.99	481.13	-0.2	1.34	481.98	436.30	425.31	450.71	481.98	481.98	358.31	375.15
Americas (804)	432.76	-0.2	392.72	384.15	405.64	366.25	-0.2	1.36	433.58	392.50	382.61	405.47	366.91	433.58	326.79	342.92
Europe (737)	377.10	0.5	342.22	334.74	353.48	360.34	0.7	1.88	375.30	339.75	331.18	350.97	357.93	377.10	265.25	280.16
Eurobloc (348)	110.23	0.5	112.42	116.35	111.70	111.73	0.7	1.53	109.70	111.60	115.10	110.90	110.95	110.23	99.54	-
Nordic (140)	541.93	1.1	491.79	481.08	507.98	560.89	1.1	1.59	536.12	485.33	473.10	501.38	554.55	541.93	388.51	427.36
Pacific Basin (667)	100.26	0.5	90.99	89.00	93.98	93.19	0.9	1.67	99.81	90.35	88.08	93.34	98.98	155.24	89.45	153.30
Euro-Pacific (1604)	215.65	0.5	195.70	191.43	202.14	191.55	0.7	1.83	214.63	194.30	189.40	200.72	190.15	218.04	172.03	206.26
North America (749)	464.76	-0.2	421.76	412.55	435.64	465.33	-0.2	1.35	465.62	421.51	410.89	435.43	466.13	465.62	349.09	365.45
Europe Ex. UK (534)	355.96	0.4	323.03	315.98	339.66	350.88	0.6	1.46	354.48	320.89	312.81	331.50	348.83	355.96	236.79	251.81
Europe Ex. Eurobloc (389)	101.83	0.5	103.83	107.49	103.19	103.95	0.6	2.27	101.95	103.11	106.35	102.47	103.29	101.83	94.53	-
Europe Ex. UK Ex. Eurobloc (186)	105.67	0.2	107.78	111.53	107.08	108.10	0.2	1.26	105.45	107.27	110.84	106.60	107.84	105.67	95.88	-
Pacific Ex. Japan (387)	159.88	1.7	145.09	141.92	149.86	156.28	1.6	4.64	157.21	142.31	138.73	147.02	163.59	316.59	142.98	306.80
World Ex. Eurobloc (2100)	102.05	0.0	92.80	90.58	95.65	103.51	0.1	1.59	102.01	92.36	90.02	95.40	109.36	102.05	93.25	-
World Ex. US (1819)	217.54	0.4	197.42	193.11	203.92	197.86	0.7	1.88	216.66	196.13	191.19	202.61	196.50	220.18	175.30	210.02
World Ex. UK (2245)	293.98	0.1	266.79	260.86	275.57	271.96	0.2	1.44	293.84	266.00	259.30	274.79	271.52	293.98	234.24	257.10
World Ex. Japan (1968)	405.59	0.1	368.07	360.03	380.18	401.41	0.2	1.84	405.18	366.79	357.55	378.91	400.87	405.59	309.33	327.54
The World Index (2448)	302.41	0.1	274.43	268.44	283.47	279.69	0.2	1.58	302.09	273.47	266.58	282.51	279.03	302.41	241.30	262.58

Emerging markets: IFC investable indices

Dollar terms

Jul 15 Market		Day's chg %	% Chg since 31/12/97
Latin America			
Argentina	1,018.91	-0.4	-8.7
Brazil	454.37	+0.5	-6.9
Chile	529.26	+2.2	-17.6
Colombia[1]	512.50	-1.0	-37.9
Mexico	632.79	-1.1	-19.7
Peru[2]	208.09	-0.2	-8.9
Venezuela[3]	461.39	+2.5	-49.6
East Asia			
China[4]	31.89	-1.8	-42.3
Korea[5]	27.34	+2.5	+13.8
Philippines	104.24	+1.1	-7.5
Taiwan, China[6]	122.70	+1.9	-13.0
South Asia			
India[7]	70.53	+0.1	-15.4
Indonesia[8]	14.59	+2.0	-56.7
Malaysia	62.13	+2.8	-31.8
Pakistan[9]	83.93	+3.7	-66.2
Sri Lanka[10]	87.69	-1.3	-24.8
Thailand	42.22	+4.0	-10.2
Europe/Mideast/Africa			
Czech Rep	56.64	+0.9	+3.5
Egypt	73.53	-0.5	-21.1
Greece	559.81	+0.1	+72.8
Hungary[11]	328.93	+1.2	+4.5
Israel	[illegible]	-0.0	+1.3
Jordan	228.37	+1.4	+8.6
Morocco	162.12	-1.1	+24.4
Poland[12]	785.44	-0.1	+31.8
Portugal	326.66	-0.1	+54.9
Russia	73.82	+5.4	-50.4
S. Africa[13]	164.43	+0.2	-8.5
Slovakia	67.09	+0.1	-38.4
Turkey[14]	285.74	+0.9	-8.5
Zimbabwe[15]	241.10	-0.1	-4.2
Regions			
Composite	217.72	+0.7	-11.5
Latin America	575.77	+0.1	-15.0
Asia	85.34	+2.0	-20.8
EMEA	146.96	+0.5	-0.5
Europe	197.22	+1.8	+4.6
Eastn Europe	101.39	+2.6	-27.8
ME & Africa	67.44		-5.7

Base date: Dec 1988=100 except those noted which are: (1)Feb 7 1989; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 5 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1992; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993.

Latest indices were unavailable for this edition.

3:30 pm July 16

NEW YORK STOCK EXCHANGE PRICES

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Jul 15	Jul 14	Jul 13	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	9234.47	9245.54	9096.21	9245.54 (14/7)	7580.42 (9/1)	9245.54 (14/7/98)	41.22 (8/7/32)
Home Bonds	105.17	105.18	105.13	105.48 (15/1)	104.42 (11/5)	105.48 (15/1/98)	54.99 (1/10/81)
Transport	3548.21	3618.73	3561.27	3686.02 (16/4)	3194.36 (9/1)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	290.87	290.99	290.04	295.40 (6/7)	262.66 (9/1)	295.40 (6/7/98)	10.53 (8/7/32)

DJ Ind. Day's high 9308.89 (9314.54) Low 9165.93 (9087.20) (Theoretical)
Day's high 9305.53 (9259.51) Low 9228.03 (9098.53) (Actual)

Standard and Poors	Jul 15	Jul 14	Jul 13	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1174.81	1177.58	1165.19	1177.58 (14/7)	927.69 (9/1)	1177.58 (14/7/98)	4.40 (1/6/32)
Industrials¶	1365.65	1364.82	1351.12	1365.65 (15/7)	1077.40 (9/1)	1365.65 (15/7/98)	3.52 (30/6/32)
Financial¶	145.69	147.69	145.70	147.69 (14/7)	118.65 (9/1)	147.69 (14/7/98)	7.13 (4/3/74)
Others							
NYSE Comp.	585.49	587.61	581.42	587.61 (14/7)	487.47 (9/1)	587.61 (14/7/98)	4.84 (25/4/42)
Amex Comp	730.39	732.20	730.47	763.67 (22/4)	646.41 (12/1)	763.67 (22/4/98)	524.20 (16/7/98)
NASDAQ Cmp	1994.54	1988.41	1986.53	1994.54 (15/7)	1503.22 (9/1)	1994.54 (15/7/98)	54.87 (3/10/74)
Russell 2000	461.59	469.43	458.75	491.41 (21/4)	410.89 (12/1)	491.41 (21/4/98)	123.38 (2/12/83)

RATIOS

	Jul 10	Jul 3	Jun 26	Year ago
Dow Jones Ind. Div. Yield	1.61	1.58	1.60	1.63

	Jul 15	Jul 8	Jul 1	Year ago
S & P Ind. Div. yield	1.25	1.26	1.27	1.50
S & P Ind. P/E ratio	32.73	32.41	32.08	25.78

US DATA

MARKET ACTIVITY

Volume (million)	Jul 15	Jul 14	Jul 13
NYSE	724.780	709.320	574.000
Amex	27.395	27.304	24.287
NASDAQ	805.335	846.583	700.804

NYSE	Jul 15	Jul 14	Jul 13
Issues Traded	3,535	3,520	3,502
Rises	1,475	1,267	1,280
Falls	1,597	1,076	1,606
Unchanged	500	595	583
New Highs	140	187	122
New Lows	80	102	123

NYSE TRADING ACTIVITY

Volume : 724,780,000

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Cendant	28,103,000	15⅞	-⅛
Compaq	22,185,700	33⅝	-⅛
Chrysler	11,744,700	58⅝	-1⅛
AT&T	8,216,800	59⅞	+2⅞
EKodak	7,240,600	85⅝	+8⅝
Pepsico	7,042,600	38⅝	-⅞
MicroTech	6,330,600	33⅞	+2⅝
Disney	5,589,300	39⅞	-⅛
Dollar Gn	5,458,800	45⅝	-⅛
Citigrp	4,573,400	52	-4⅝

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
DSPComm	18	+2⅞	+17.6
EKodak	85⅝	+9⅝	+12.4
Yarco Intl	19	+2	+11.8
CadenceDsgn	29⅞	+2⅞	+10.1
Downs			
ICN Pharm	38⅝	-4⅛	-10.4
Wolverine	19	-1⅞	-9.3
TelteA	28⅝	-2⅝	-8.7
Walsgrl	69⅞	-5⅝	-7.8

NASDAQ TRADING ACTIVITY

Volume :805,335,000

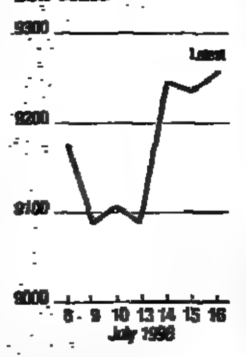
ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Intel	41,982,700	84⅝	+3⅞
MBO & Co	31,265,100	33⅝	+1⅞
WrldCm	17,586,000	54⅝	+2
Eggbead	16,378,400	29⅞	-2⅝
DellComp	14,636,100	111⅝	+4⅝
NorestCmA	13,161,900	31	+1⅝
AscendCom	12,288,900	39⅝	+1⅞
Oracle	12,225,600	27⅞	+1⅞
Micsft	12,126,300	117⅝	+⅝
3Com	10,718,300	29⅞	+⅝

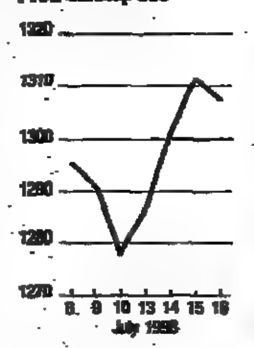
BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
Sportsked	16⅞	+4⅝	+35.2
NutriMax	14⅝	+3⅝	+28.3
Vicor	18	+2⅞	+16.5
SanchezCmp	26⅝	+3⅝	+15.4
Downs			
Eggbead	29⅞	-2⅝	-11.7
Glenayre	25⅝	-3⅝	-11.0
StoryEdict	30⅝	-3⅝	-10.7
AdvFCm	23⅝	-2⅞	-10.1

Dow Jones



FTSE Eurotop 300



JAPAN

	Jul 16	Jul 15	Jul 14	1998 High	1998 Low	Since compilation High	Since compilation Low
Nikkei 225	16731.92	16614.14	16493.91	17264.34	14594.44	38915.9	85.25

Day's high 16756.89 Day's low 16488.25

TOKYO TRADING ACTIVITY

Volume : 446,000,000

ACTIVE STOCKS

Thursday	Stocks traded	Close price	Day's change
NpSti	14,281,000	284	+2
NKK	10,253,000	158	+3
Fujitsu	7,995,000	1570	+40
LgTmCr	7,303,000	52	-2
Mitsbshy	6,912,000	578	-1
Yuasa	6,126,000	393	+6
Sakura	6,091,000	360	
SumitMl	5,598,000	220	-5
IshikwG	5,305,000	440	-65
KawStl	5,029,000	257	-3

BIGGEST MOVERS

Thursday	Close price	Day's change	Day's chge %
Ups			
EsteelS	440	+65	+17.3
ToyoSh	1952	+175	+9.8
Chiyoda	193	+13	+7.2
Hirose	7000	+440	+6.7
[illegible]	221	+13	+6.3
Downs			
OpPrep	580	-51	-8.1
[illegible]	895	-73	-7.6
[illegible]	591	-41	-6.5

FRANCE

	Jul 16	Jul 15	Jul 14	1998 High	1998 Low	Since compilation High	Since compilation Low
CAC 40	4358.13	4341.30	closed	4358.13	2862.54	4358.13	984.61

Day's high 4386.22 Day's low 4343.46

PARIS TRADING ACTIVITY

Volume : 388,170,210

ACTIVE STOCKS

Thursday	Stocks traded	Close price	Day's change
Usinor	1,577,265	68.5	-0.6
Axa	1,343,859	822	+5
Alcatel	1,323,662	182	-5.5
Sanofy	1,156,179	1060	+4
MoHnS	983,295	375.2	-9.7
EurDis	836,826	11.7	-0.3
FrTele	832,848	415.2	+5.7
Alcatel	821,042	1390	-21
STMicro	667,718	426	+17.5
Schneid	639,514	450	-12

BIGGEST MOVERS

Thursday	Close price	Day's change	Day's chge %
Ups			
PechnyA	255	+10.7	+4.4
STMicro	426	+17.5	+4.3
Paribas	538.1	+11.1	+3.4
Colas	1295	+42	+3.4
Downs			
Chrgrs	410.6	-33.5	-7.5
Lapeyr	508	-22	-4.2
Valeo	635	-27	-4.1
Eurafr	3520	-149	-4.1

GERMANY

	Jul 16	Jul 15	Jul 14	1998 High	1998 Low	Since compilation High	Since compilation Low
DAX	6094.02	6108.24	6095.28	6108.24	4097.28	6108.24	931.18

Day's high 6157.73 Day's low 6090.01

FRANKFURT TRADING ACTIVITY

Volume : (a)

ACTIVE STOCKS

Thursday	Stocks traded	Close price	Day's change
Siemens	4,222,322	129.1	+10.7
DtBank	856,953	173.75	-2.75
Lufthan	707,728	52.75	-2.05
Daimler	691,548	24.95	+3.25
Commerzbk	681,139	68.2	-1.4
BASF	669,535	88.7	-2.15
Veba	663,050	117	+1.2
Bayer	661,132	89.6	-3.20
Dt Bk	480,232	152.2	-2.1
H'chst	478,849	80.9	-1.85

BIGGEST MOVERS

Thursday	Close price	Day's change	Day's chge %
Ups			
Siemens	129.1	+18.7	+16.9
Deutz	24.95	+3.25	+15.0
B'sdorf	122	+4	+3.4
GrohPf	650	+20	+3.2
Downs			
VW Pf	126.5	-7	-5.2
HeidCm	160	-7	-4.2
Conti	35.2	-1.1	-4.0
MacWig	940	-38	-3.9

UK

	Jul 16	Jul 15	Jul 14	1998 High	1998 Low	Since compilation High	Since compilation Low
FTSE 100	6116.8	6151.5	6100.2	6151.50	5068.80	6151.5	986.9

Day's high 6182.4 Day's low 6086.5

LONDON TRADING ACTIVITY

Volume : 1,082,000,000

ACTIVE STOCKS

Thursday	Stocks traded	Close price	Day's change
Tesco	17,366,580	192	-3½
Brit.Aero	16,626,150	458	-5
Cable & Wire	16,492,560	840	-2
LIBERtabaca	15,825,863	17¼	+¼
ScotMidcastle	15,442,500	842½	-12½
Vodafone	14,821,880	825	+8½
BT	14,648,613	807	-10
SmithBchm	13,791,910	766	-6½
Lloyds TSB	11,852,160	929	-9½
BAT Inds	11,753,330	715½	+4

BIGGEST MOVERS

Thursday	Close price	Day's change	Day's chge %
Ups			
Sleepy Kids	14½	+2	+16
Jacques Vert	11½	+1½	+15
Melda Hdg	6¼	+½	+13.3
Ionica Grp	42	+4½	+12
Downs			
Bolton etd	2½	-¾	-21.4
Nexprint	212½	-44½	-17.3
Elbet	29	-4½	-13.4
Golf Club	30	-4	-11.8

INDEX FUTURES

S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Sep	1184.00	1185.00	+1.80	1186.80	1183.30	86,477	347,138
Dec	-	1196.30	-	-	-	242	14,696

Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	16580.0	16610.0	+90.0	16730.0	16450.0	26,518	211,324
Dec	16550.0	16820.0	+130.0	16540.0	16400.0	287	18,013

Open interest figures for previous day.

CAC-40 (FFr x index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Jul	4357.0	4370.0	-2	4394.5	4350.0	35,086	158,502
Sep	4389.5	4394.0	-2	4414.0	4377.5	1,239	110,859

DAX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Sep	6150.0	6140.0	-22.0	6192.0	6119.0	30,104	77,794
Dec	6235.0	6189.5	-37.0	6236.0	6175.0	4	2,267

[illegible]	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Jul	822.00	814.00	-6.25	824.00	812.00	24,831	88,947
Aug	825.50	817.30	-8.45	827.50	816.30	15,234	42,572

SOFFEX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Jul	8160.0	8133.0	-32.0	8207.0	8115.0	7,995	15,341
Aug	8179.0	8149.7	-22.0	8225.0	8138.0	5,530	17,588

WORLD MARKETS AT A GLANCE

Country	Index	Jul 16	Jul 15	Jul 14	1998 High	1998 Low	Yield	P/E
Portugal	BVL 30	5890.26	5904.34	5907.29	[illegible] 22/4	[illegible] 2/1	1.7	43.6
	PSI 20	13470.53	13405.18	13515.73	14282.99 22/4	[illegible] 2/1		
Russia	RTS	181.32	190.55	183.65	411.61 5/1	134.84 8/7	na	na

Profit-taking emerged, fuelled by news that Duma had rejected the government's new sales and land taxes.

Country	Index	Jul 16	Jul 15	Jul 14	1998 High	1998 Low	Yield	P/E
Singapore	SES All-Sing	306.72	305.71	300.14	432.80 19/3	280.04 16/6	3.06	12.7

[illegible]

THE NASDAQ STOCK MARKET

3:30 pm July 16

[illegible]

THE NASDAQ STOCK MARKET

[illegible]

AMEX PRICES

3:30 pm July 16

[illegible]

EASDAQ

[illegible]

STOCK MARKETS

Frankfurt and Paris defy profit-takers

WORLD OVERVIEW

A touch of profit-taking was perhaps inevitable after the record-breaking run of US and European markets in recent days, but the bulls still managed to notch up a couple of victories, *writes Philip Coggan.*

Asian markets were healthy enough, with the Hang Seng and Nikkei 225 both higher and Bangkok, Karachi and Seoul all recording big gains. The entry into the Japanese leadership contest of Seiroku Kajiyama, believed by markets to be a proponent of economic reform, encouraged investors.

European markets were flat but Paris and Frankfurt still had the energy to edge up to new highs despite a dull performance on Wall Street.

The US stock market continued to wade through the deluge of second-quarter earnings reports amid signs of success for the "softening up process" of downgrades before the season began.

IBES, the information company, reports that of the 149 S&P 500 companies that have reported so far, 60 per cent produced a positive earnings surprise. The proportion with negative news was 15 per cent.

Earnings growth, compared with the same quarter in 1997, has been just 1.1 per cent – although if General Motors, Intel, Motorola and Compaq are taken out of the calculations, the figure leaps to 10.2 per cent.

Joe Abbott, the equity strategist at IBES International, says that the consensus 17 per cent forecast for earnings growth in 1999 is unrealistic and 6 per cent is more likely.

However, analysts have regularly been disappointed by earnings in recent years and the US market has continued its bull run regardless, thanks to the buoyant economy, strong cash flow of investors, low interest rates and low bond yields.

Goldman Sachs continues to take a fairly upbeat view about the prospects for world stock markets over the next 18 months. It says: "Global economic growth is sufficient to maintain returns on capital at around present levels and earnings can grow at close to double-digit rates, led by Europe and a rebound in Asia. The global cost of capital will stay low as interest rates stay low and equity risk premia are capped by the stable economic environment.

"Equity valuations will be maintained around present levels as the spread between global return on capital and the cost of capital is sustained around current levels. Global equities will generate returns in line with earnings growth – high single to low double-digit rates of return. Equities should outperform bonds."

Nasdaq record run falters as Dow recovers

AMERICAS

The Nasdaq composite was under close scrutiny on Wall Street as investors waited to see whether it could continue its six-session record-breaking streak, *writes Richard Tomkins in New York.*

In early trading, the index briefly passed 2,000 for the first time amid continued enthusiasm for technology stocks. But confidence flagged, and by 1pm, the index was down 0.86 at 1,993.68.

The story was the opposite in blue chips. The Dow Jones Industrial Average fell a little in early trading, continuing its decline from Tuesday's record closing high of 9,245.54. But it was heading for new record territory as it recovered to show a gain of 41.97 at 9,276.44.

The Standard & Poor's 500 index struck a compromise, ending the morning almost unchanged. It was 1.75 higher at 1,176.63.

The Dow was held back by weakness in several constituent stocks. Coca-Cola was down $¾ at $87 after reporting a 9 per cent fall in second quarter profits because of the strong dollar; Walt Disney was $$\frac{1}{16}$$ easier at $39 after a downgrade by Salomon Smith Barney; and J.P. Morgan was $2 lower at $129¾.

In the wider market, airline stocks suffered as investors worried that the sector's cycle had peaked. Delta Air Lines lost $4¾ to 182\frac{11}{16}$, in spite of reporting a 20 per cent increase in quarterly profits; AMR, parent of American Air Lines, tumbled $5¼ to $78¾; and UAL, parent of United Airlines, was down $1¾ at $86¾.

The two biggest toy producers reported poor second quarter results because of inventory cuts at Toys "R" Us, their biggest customer, but their shares rose amid investor hopes that profits would bounce back later in the year. Mattel was up $2¾ at $41 and Hasbro $¾ higher at 39\frac{1}{16}$.

The decline in the Nasdaq came in spite of strong results from Apple Computer on Wednesday night. Apple's shares were up 3\frac{1}{16}$ at $37¾. But examples of declining stocks included VLSI Technology, a semiconductor maker, down 1\frac{1}{16}$ at 19\frac{1}{16}$ after reporting lower than expected results.

TORONTO ticked higher at midsession as strength in the heavyweight gold sector provided support for the broad market. The TSE-300 composite index was 9.42 higher at 7,397.55 in volume of 45m shares.

The gold and precious metals sector rose 2 per cent while eight other sectors remained in positive territory at noon.

Barrick Gold was actively traded, rising 80 cents to C$27.35.

Canadian Imperial Bank of Commerce, Royal Bank of Canada and their respective merger partners, Toronto-Dominion Bank and Bank of Montreal, traded lower on ambiguous merger guidelines announced by Canada's Competition Bureau on Wednesday.

By midsession, the shares were mixed. CIBC rose 10 cents to C$49.90, Royal Bank dipped 10 cents to C$90.60, Toronto-Dominion gained 15 cents to C$66.45 and Bank of Montreal was 5 cents easier at C$84.10.

Debt plans lift Caracas

CARACAS leapt 3.9 per cent at midsession, spurred higher by government debt plans to plug the fiscal deficit and stave off a devaluation. The IBC index traded 189.04 higher to 5,028.24.

Analysts noted that the government announced late on Wednesday proposals for up to $2.1bn in loans and bonds to close its widening fiscal gap, caused by this year's slump in oil prices. They added that investors had been worrying that the government would be forced to devalue to cover the budget deficit, seen at around 4 per cent of GDP.

MEXICO CITY was higher at midsession as bargain hunters turned out to take advantage of a slide late in Wednesday's session. The IPC index stood 86.93 higher at 4,680.71.

Telmex, Mexico's dominant telecommunications company, rose sharply with its L shares up 2.9 per cent or 65 centavos to 23 pesos.

Siemens rises despite warning

EUROPE

The curious tale of how dull nine-month results and a profits warning from Siemens contributed to a near 20 per cent surge in the electrical engineering giant's share price dominated activity in FRANKFURT.

For along with all the bad news came the announcement that the group could be floating some subsidiaries as part of a restructuring plan.

The shares, volatile and sharp underperformers of the German market this year, shot up to a high of DM133 in response to the restructuring news. By the close, the price had edged back but was still DM19.40 or 17.5 per cent higher on the day at DM130, the highest for almost 12 months.

The broader market was flat by the close, hit by a weaker Dow and flagging dollar. The Xetra Dax index did, however, manage a rise of 1.90 to 6,108.00, another all-time high.

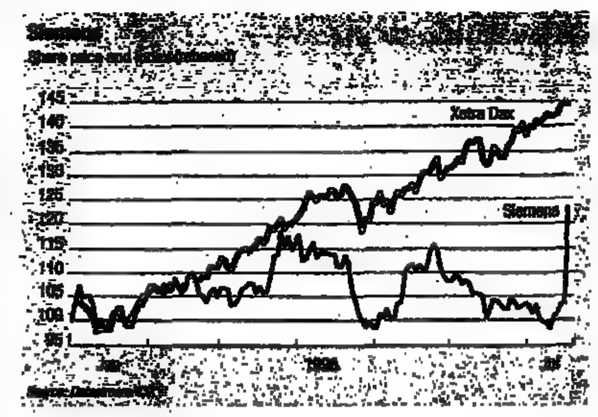
Deutz, the engine maker, was another of the day's outperformers with a rise of DM3.30 or 13.2 per cent to a record high of DM25 on news that it was to strengthen its co-operation with Swedish car maker Volvo.

PARIS closed off its best levels of the day as activity declined late in the session, in line with a more modest early performance on Wall Street. The CAC-40 index turned back from a peak of 4,386.22 but still closed 13.83 higher at a record 4,358.13.

Semiconductor maker ST Microelectronics was the CAC's big winner, rising FFr17.50 or 4.3 per cent to FFr426 as it mirrored the performance of high-tech Nasdaq stocks in the US. Analysts added that good first-half results were expected from the company today.

Finance house Comptoir des Entrepreneurs jumped FFr1.15 or 7.5 per cent to FFr16.45 on news that it would acquire bank La Henin Epargne-Credit. AGF, the insurance company that owns Comptoir, said the acquisition would be earnings positive from next year.

Bic, the pen and razor company, put on FFr12.90 to FFr440.80 on higher first-half sales.



Tyre maker Michelin outperformed, catching up on recent losses with a rise of FFr9.70 to FFr375.20. The stock was boosted by the healthy sales performance of French car makers in Europe and news that Daiwa had raised its recommendation on the stock. Renault, which saw a 16.4 per cent rise in first-half sales, picked up FFr4 to FFr370.

ZURICH saw profit-taking in the financials as pressure grew for higher interest rates, while derivatives-related selling ahead of today's futures and options expiry also undermined prices. The SMI index lost 31.6 to 8,126.5.

Among the banks, UBS fell SFr8 to SFr617, while among the insurers, Zurich, a strong market in recent sessions, gave up SFr21 to SFr1,126.

Against the trend, Swiss Reinsurance closed SFr42 higher at SFr4,060 on rumours about a share buy-back, while Baloise put on SFr33 to SFr1,493 on recurrent rumours about a merger or takeover.

Among other blue chips, Novartis put on SFr10 to SFr2,420 as the market chose to overlook half-year sales that barely met expectations and focused instead on the company's forecast that sales should pick up in the second half. Roche certificates lost SFr185 to SFr14,815.

Nestlé put on SFr4 at SFr3,347 in a continuation of the rally sparked by a CS Group 12-month price target of SFr3,900.

AMSTERDAM featured KLM Royal Dutch Airlines, which fell Fl 7.70 or 7.9 per cent to Fl 90 after the company denied a Financial Times report that airport fees would cut into the group's profits. The blue-chip AEX index fell 10.25 to 1,282.22.

STOCKHOLM was unable to hold on to early gains despite a strong showing by motor company Volvo. The all-share General index slid 22.33 to close at 3,840.12.

Trading in Volvo dominated the day's trade after the company reported better than expected half-year results. Volvo's B shares closed up SKr14 at SKr269.50, although that was down from a high of SKr274.

MILAN closed slightly higher with the Mibtel all-share index rising 0.21 per cent at 25,281. Pirelli surged more than 5 per cent to close at L6,650 after the company said it would buy the power cables unit of Siemens for DM500m.

Banking shares gained ground, with Banca di Roma up 2.65 per cent to L4,032. Banca Nazionale del Lavoro jumped more than 5 per cent to L52,623. Shares of Fiat climbed 6.67 per cent.

MOSCOW turned back after roaring higher earlier in the week in response to the $22.6bn aid package to shore up its crumbling state finances.

Analysts said that profit-taking emerged, partly fuelled by news that the Duma, the country's lower chamber, had rejected the government's new sales and land taxes.

The RTS index dropped 9.24 or 4.9 per cent to close at 181.32, in volume that dipped to $49m from $67m on Wednesday.

BUCHAREST sank 8.6 per cent to its sixth consecutive low for the year but traders attributed the fall to one foreign investor liquidating his position in several stocks.

TALLINN, in contrast, looked unstoppable, rising 9 per cent on top of the sharp advances seen earlier in the week.

Written and edited by Michael Morgan, Peter Hall and John Labate

Jo'burg up despite weak rand

SOUTH AFRICA

Johannesburg closed higher in spite of a weak rand as institutional investors moved into rand hedges in an effort to cushion portfolios against uncertainty. The overall index put on 83 at 7,392.5 while an improving bullion price helped the gold index up 21.8 to 1,048.1.

Financials gained 197 to 13,742.7 and industrials put on 52.6 to 8,645.3.

De Beers rose 220 cents to R115.20 and Anglo put on 100 cents to R[illegible].

Tokyo gains on reform hopes

ASIA PACIFIC

Reports that Seiroku Kajiyama, the Liberal Democratic party executive said to favour aggressive reform of Japan's troubled banking system, would make a bid to become prime minister, lifted TOKYO, *writes Alexandra Harney.*

The post became vacant when Ryutaro Hashimoto stepped down, insisting he should take responsibility for his party's devastating election losses.

The Nikkei 225 average gained 117.78 to 16,731.92, after trading between 16,498.25 and 16,756.89. The market has risen every day since Mr Hashimoto's resignation on Monday, although volumes have been light as investors await political developments. Trading volumes were thin at 430m shares. The Topix index of first section stocks rose 5.42 to 1,280.73. Advancing issues exceeded losers 621 to 506, with 142 issues unchanged. In Osaka, the OSE average improved 14.43 to 17,487.32.

Investors favoured blue chip stocks, especially heavy industries and electronics manufacturers. Nippon Steel, the world's largest steel maker, topped the market in volume and closed up Y2 to Y264. NKK was up Y3 to Y153, and Mitsubishi Heavy gained Y1 to Y576.

Sony extended its recent climb to close up Y250 at Y13,150. The shares have risen nearly 20 per cent in the last two months. Hitachi was down Y32 at Y873, but Toshiba rose Y4 to Y589.

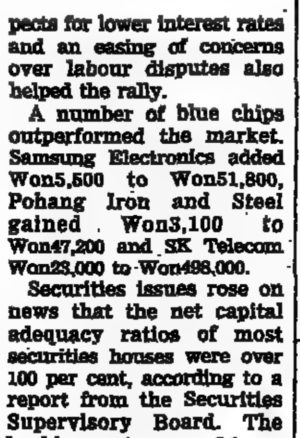
The Long Term Credit Bank, which has denied that its merger talks with Sumitomo Trust were meeting difficulties, gave up another Y2 to close at a record low of Y52. Fuji Bank lost Y10 to Y610, and Mitsui Trust and Banking fell Y8 to Y325.

KARACHI and BOMBAY soared on news that the US Senate had voted to grant powers to President Clinton to lift economic sanctions against Pakistan and India.

The sanctions were imposed in response to the nuclear tests in both countries. The KSE-100 index was 58.61 higher at 847.76 while the BSE-30 index jumped 123.05 to 3,488.77.

SEOUL was sharply higher, lifted by the stronger yen and foreign buying which amounted to a net Won38.2bn. The composite index ended up 16.93 at the day's high of 330.85.

Analysts noted that the stronger yen was good news for local investors as South Korean exporters compete in core export markets with their Japanese counterparts. At the same time, the prospects for lower interest rates and an easing of concerns over labour disputes also helped the rally.



A number of blue chips outperformed the market. Samsung Electronics added Won5,500 to Won51,800, Pohang Iron and Steel gained Won3,100 to Won47,200 and SK Telecom Won23,000 to Won498,000.

Securities issues rose on news that the net capital adequacy ratios of most securities houses were over 100 per cent, according to a report from the Securities Supervisory Board. The banking sector rose 9.1 per cent while the securities houses soared 9.7 per cent.

BANGKOK moved ahead for a second consecutive day following gains in most regional markets. The stronger yen, which helped to boost the baht in late trade, enabled the market to build on morning gains and the SET composite index ended 8.26 higher at 282.01.

Signs of possible commercial bank lending rate reductions also lifted sentiment, brokers said.

Banks, communications and energy stocks posted strong gains while finance counters pared early losses to finish 1.3 per cent lower.

THE DAY'S CHANGES

	% Change
Karachi	+7.4
Seoul	+5.4
Bombay	+3.7
Bangkok	+3.0
Singapore	+1.7
Hong Kong	+1.5
Jakarta	+1.4
Sydney	+1.3
Wellington	+1.2
Tokyo	+0.7
Taipei	+0.6
Kuala Lumpur	-0.8

EMERGING MARKET FOCUS

Copper price rise cheers Chile

Optimism has returned to the Santiago stock market, which has been flat since April, following a rise in the world copper price and signs that the peso might be stabilising.

But high domestic interest rates are likely to keep stocks depressed into 1999.

Copper is Chile's biggest export earner, accounting for about 40 per cent of revenues. The announcement of production cuts in China helped pushed the price up from an 11-year low, and the IPSA share index, was at 88.11 on Wednesday, up from 84.16 a week earlier, on hopes that this price growth could be sustained.

Higher copper export earnings would help cut the current account deficit, expected to reach 6.7 per cent of GDP, and reduce the likelihood of a foreign currency shortage in the second half, when export earnings are traditionally lower.

Most foreign investors expect the peso to weaken further over the coming months, despite a 3 per cent devaluation since late last month, when the central bank raised and narrowed the band in which the dollar floats against the peso. The peso has depreciated by almost 12 per cent in nominal terms since last October.

Last week the central bank launched a new three-year dollar-denominated bond, intended to help the banks match their forward dollar liabilities with central bank paper, instead of buying dollars from the reserves.

Much of the downward pressure on the peso, has come as companies sought forward cover for foreign currency commitments. The bonds were well received and the currency has steadied at about 462 pesos to the dollar.

However, in spite of high interest rates, foreign investors are reluctant to invest in fixed rent instruments because the currency is still viewed as unstable.

Interest rates have been returning to more normal levels, at around 10 per cent this week, after climbing above 80 per cent last month, before the government announced budget cuts to help cool the economy.

A decision by the central bank to reduce the reserve requirement on all foreign capital inflows from 30 per cent to 10 per cent has also been well received. Since the cut, trading volume has risen, if unevenly, to weekly averages of 9-10 billion this month, compared with averages of 5 billion in June.

Chilean stocks are now beginning to look cheaper than their Latin American counterparts, and could attract longer-term investors. Forestry companies such as Cartones, Copec and Inforsa, depressed by low commodity prices and exposure to Asia, are attractive long-term buys, according to Jose Miguel Infante of de la Cerda, Hatton, a Santiago brokerage.

But in the short term, the markets may not yet have absorbed the probable poor second-quarter results. Endesa and Gener, both utilities, will suspend dividend payments, due this month, because of higher debt servicing costs.

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RICHARD DONKIN

Source of knowledge

A new species of corporate official is emerging, often created by chief executives

Do you have a chief knowledge officer in your company? No? It may be only a matter of time before this new corporate species, classified and categorised with its own identifiable set of traits and characteristics, takes flight among the multinationals. That at least is one suggestion in a study by London Business School.

This study by Professor Michael Earl and Ian Scott recognises that some companies may already possess executives of similar plumage without the word "knowledge" in their job titles – an obvious alternative would be head of intellectual capital. But for the purposes of the LBS research, the study was confined to individuals who include the magic word somewhere in their title.

The main reason, explains Prof Earl, was to distinguish the job from that of the chief information officer, whom he perceives to have a more technical function. The knowledge officer is a more exotic creature, often a creation of the chief executive. Prof Earl notes the post is so reliant on the CEO's patronage that it is likely to expire with the demise of its sponsor. The study estimates that some 25 knowledge officers are so named worldwide.

Given the job's precarious existence, it is not surprising that the research covers itself by acknowledging that in some companies it may be destined for an evolutionary dead end. Indeed, this appeared to be the hope of some of the officers themselves when they stepped into the role, looking at the job in some ways as an extended project of limited tenure. In practice, says the study, many found their task lasting longer than they had expected.

So what does a chief knowledge officer do? One definition quoted in the report is that they "co-ordinate and promote knowledge activities throughout the organisation" and "drive forward the knowledge agenda". What does this mean?

In practice it often means, initially at least, doing something of identifiable value in the dissemination of information, such as setting up an intranet – an internal internet – and demonstrating to fellow employees how it can be used to their advantage, says Elizabeth Lank, programme director (mobilising knowledge) at ICL, the computer company.

But she sees the role quickly developing beyond that of an information specialist. "The job title at first was programme director, knowledge management, but I changed that because I thought 'knowledge management' had too much of a systems feel to it," she says.

The job was created by Keith Todd when he became chief executive in 1996. This followed an internal knowledge management network, a kind of investigatory working party set up three years ago in recognition of the fact that ICL had turned from a manufacturing to a service company.

Ms Lank says the job is still changing, but at present concentrates on three main areas. The first involves running management workshops to get over the idea of knowledge as an asset and what it means in the company. At the workshops, managers are expected to draw up personal action plans for use in their jobs. A second area is the identification and the plugging of gaps in corporate knowledge. And a third is to make knowledge accessible among employees and shared across functions.

Ms Lank has a small support team that includes the information technology expertise she did not have herself. The team does not belong to any specific department but works across functions. Measuring its worth, she accepts, is difficult. "It's easier to measure the cost of not doing it. We have 19,000 people across 80 countries. How can anyone find what projects we have done to reuse the learning? A manager in Stockholm may waste two months' work researching a project that has already been completed in the UK."

The prevention of wasted work has much merit, but there may be a limit to how far companies can go in attempting to harness the so-called "tacit knowledge" we carry in our heads.

A corporate focus on employee knowledge has proved threatening in the past. One of the aims of F.W. Taylor, the inventor early this century of scientific management, which broke down and measured the constituent parts of a job, was to ascertain the true capabilities of an individual. This was resisted by Nels Alifas, a US trade union leader and one of Taylor's chief critics. Alifas held that workers tried to keep knowledge to themselves in order to exercise control over their working lives.

"We haven't come into existence for the purpose of seeing how great a task we can perform through a lifetime," said Alifas. "We are trying to regulate our work so as to make it an auxiliary to our lives."

His observations are worth remembering among companies struggling to secure the knowledge of their employees. Those

Managers are expected to draw up personal action plans for use in their jobs

human assets are not like bricks and mortar and machinery designed as tools for profit. They have other lives outside the company.

Another source of resistance to knowledge sharing is the historical perspective of "trade secrets", the idea of the guild that protected the workings of a craft among initiates. The approach of the knowledge officer is diametrically opposite that of workers unwilling to share their knowhow.

Personality testing of a sample of the officers in the LBS study found that openness was the predominating trait beyond that of extroversion. Most, according to Prof Earl, were confident, passionate and bubbly people. It may be significant that about a third of those covered by the study were women.

This open approach may prove the worth of such officers. Ms Lank sees her job as pointing out sources of knowledge in the company rather than extracting an individual's knowhow.

As knowledge management progresses, companies will need to create ways of recognising the expertise of certain employees. The sophistication of intranets has created the potential for systems to track the way individuals are being tapped for their knowhow by colleagues. This is likely to throw up some surprises. We may soon be looking at a new group of worker heroes whose value to the company has been consistently underestimated by senior managers focused myopically on productivity.

In the meantime, it is a good one for the CV. As one of those in the study remarked: "I have the honour of having the most pretentious title in the company."

Report details: Ginny Batten, tel +44 171 262 5050
richard.donkin@FT.com

WORKING BRIEFS

Slowdown in headhunting in central and eastern Europe

The growth of executive search in central and eastern Europe, an increasingly strong source of business for headhunters in the past few years, appears to be slowing, according to figures released this week by the European arm of the Association of Executive Search Consultants.

The 2,293 executive searches booked in the first quarter among the association's 46 member firms in Europe reflected a 3 per cent rise on the same period of 1997, but showed a 7 per cent decline in demand on the last quarter of 1997.

Germany, the UK, France and Scandinavia are reporting the strongest year-on-year growth in search across Europe. Growth in Germany was far ahead of the rest with an 84 per cent increase on the previous year. Searches had risen 38 per cent in Scandinavia, 28 per cent in the UK and 22 per cent in France on the same period the previous year. But the number of searches in central and eastern Europe had fallen by a quarter year-on-year and by a half from the end of 1997.

While demand among service and manufacturing companies remains buoyant in Europe, AESC quarterly statistics for the US show that searches among manufacturing companies in the US fell by 29 per cent in the last quarter and by 6 per cent on the same quarter last year. Overall the US association reported a 12 per cent drop in booked searches during the first quarter, but this was from a record high in the last quarter of 1997.

In both Europe and the US almost half of the booked searches were in the $100,000 to $199,000 pay range.
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Warning over IT skills

Skills shortages in information technology staff are likely to continue indefinitely, according to a survey among UK IT professionals carried out by DP Connect, IT recruitment consultants. More than three-quarters of the 162 IT professionals surveyed said they expected skills shortages to continue well after the millennium bomb problem had been rectified. Pace of change and the lack of training were identified as the biggest long-term issues.
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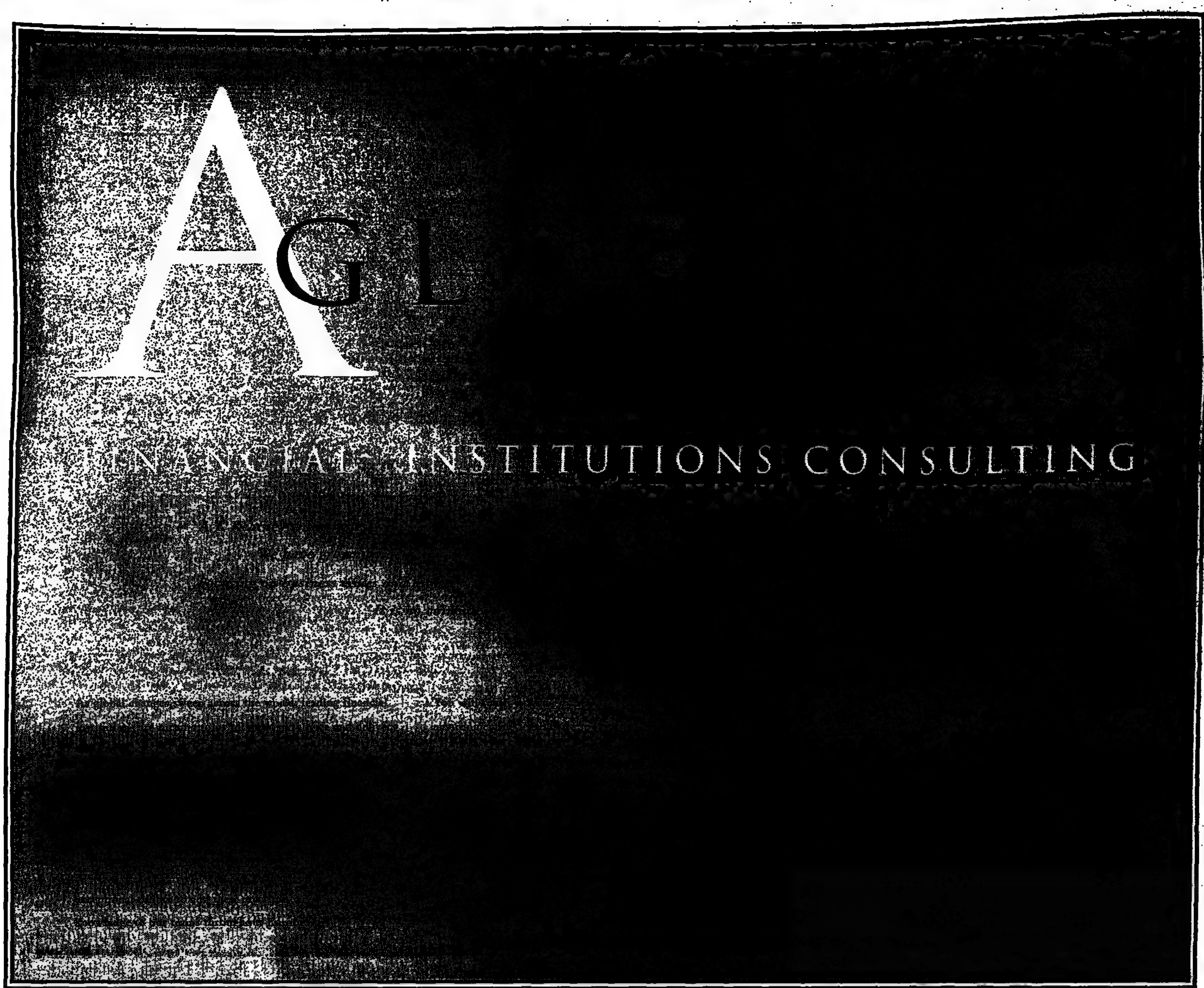

مكرر من الاصل

هكذا من الأصل

CHIEF EXECUTIVE OFFICER

GPC is a biotech company located in Martinsried near Munich, Germany, which has successfully developed a uniquely integrated platform of automated and proprietary high-throughput functional genomics technologies. The company was founded in August 1997 and is supported by two leading venture capital funds investing in biotechnology, BB BioVentures and Techno Venture Management.

We are looking for a Chief Executive Officer who will complement our existing management team. The successful candidate will be responsible for establishing GPC as a pre-eminent force in the rapidly growing field of biotech companies using genomic technologies for drug discovery.

The successful candidate will:

- Develop a strategic plan for GPC, including scientific, organisational, financial and commercial objectives. Effectively articulate this vision both inside and outside of the organisation.
- Identify and implement proprietary research programs to expand the technology base and initiate internal drug discovery projects.
- Seek and drive strategic alliances with pharmaceutical partners and biotechnology companies.
- Provide strong leadership and direction in the management and recruitment of GPC's staff.

The ideal candidate should have the following profile:

- A Ph.D. or M.D/Ph.D. with experience in the field of molecular biology is preferred. Non-scientist candidates, with significant experience in the successful management of a biotechnology, pharmaceutical, or biomedical organisation would be considered as well.
- A proven record of successfully building and managing a quality pharmaceutical or biotechnology organisation/program. Exposure to the field of genomics is highly desirable.
- A clear understanding of the current, and a vision of the future, for the biotechnology and pharmaceutical marketplaces.
- A team player. Capable of striking a balance between delegation and the hands-on management of projects and responsibility. Fluency in English and preferably also in German.

We offer a compensation package which will be designed to attract the truly outstanding candidate to this highly important position. The package will include a base salary, success-based remuneration, equity stock options, and appropriate relocation provisions

Interested candidates should send their resumes to **Dr. Michael Steinmetz, Acting CEO of GPC, Managing Director of MPM Asset Management One Cambridge Center, Cambridge, MA 02142, USA**

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Please note reference number 301023

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We are acting for the London arm of a leading specialist global equity house using sophisticated "active quant" techniques.

The company is now well established in the European markets where it enjoys a growing reputation. A significant increase in business has been evident in the last six months and is expected to continue. To support this growth and the ensuing increase in trading the company seeks to appoint a dealer to work alongside the Head Trader.

This is not a conventional investment management environment; reliance is placed on computer generated programmes to manage portfolios. The dealer acts on these instructions to trade in stocks across 14 European markets (including the UK) and across all sectors. Trading volumes are significant.

The successful candidate may not have direct experience of a similar role. *He or she should, however, have been educated to degree level* in a numerate discipline and have gained a thorough appreciation of the equity market through experience within an investment bank or investment management company. Computer literacy is essential as are the ability and desire to work as part of a small team to add long term value to assets through an analytical approach.

Career prospects are genuinely exceptional within both this team and the organisation as a whole.

In the first instance, please contact Rachel Holland or Helen Fogg at Halsey Consulting, Prince Rupert House, 64 Queen Street, London EC4R 1AD. Telephone: 0171 489 1555 Fax: 0171 489 1556

HALSEY CONSULTING

Chief, Finance Branch

The leading United Nations Agency in the field of population and development (UNFPA) is seeking qualified applicants for the position of Chief, Finance Branch based in New York City. The incumbent will be responsible for all managerial, technical and operational aspects of the Fund's financial activities. He/she will also manage the Finance Branch which has some 20 staff comprising (a) Budget and Management Analysis section; (b) Project Accounts and Financial Services section and (c) Finance Officer's functions which include *formulation and review of financial policies, treasury and cash flow management.*

UNFPA seeks an incumbent with professional qualifications in Accounting, such as CA, CPA and/or advanced university degree in Finance, Business/Public Administration or Management. Solid background and knowledge in the design and development of computerized systems and information technology is required. Thorough knowledge of *UN financial systems and regulations is an advantage.*

In addition, you will need a minimum of 15 years' experience (eight at the international level) in positions of increasing management responsibility, including in-depth experience in budgeting and accounting, financial and resource planning, and computerized financial information systems. Excellent written and oral communication skills in English; and fluency in French and/or Spanish is highly desirable.

Also required are initiative and sound judgement; organizational skills; the ability to work in harmony with persons of different national backgrounds; strong interest in development work and dedication to the UN principles; adaptability to new working environments; and a strong capacity to manage pressure.

UNFPA offers an attractive compensation package commensurate with experience. Resumes should be received by August 1, 1998. Please send application marked (VA/015/98) to: Chief, Personnel Branch, UNFPA, 220 East 42nd Street, New York, NY 10017; FAX: (212) 297-4908. You can send your application and resume electronically to: apply@unfpa.unfpa.org. We will only be able to respond to those applicants in whom we have further interest. Women and nationals from developing countries are encouraged to apply.

UNFPA
United Nations Population Fund

CHIEF EXECUTIVE OFFICER
BANK OF MALDIVES PUBLIC LIMITED
REPUBLIC OF MALDIVES

The Government of the Republic of Maldives is seeking a Chief Executive (General Manager) for Bank of Maldives Public Limited. Bank of Maldives is a public company with the controlling interest held by the Government of Maldives. In 1997 the total business of the Bank was US$88 million. It operates through 3 branches in Male', and 9 other branches throughout the country.

Qualification and Experience:
The successful candidate should be in his/her early forties and from an English speaking background. He/she should have internationally recognised professional banking qualifications and at least 15 years of banking experience, including international experience and 5 years at senior management level. It is critical that the person appointed is sensitive to working in a different culture.

The successful candidate must be computer literate and should possess thorough knowledge and experience in all aspects of commercial banking including project financing, credit and loan portfolio management and international trade financing. Development and investment banking experience is desirable.

The successful candidate must have a record of creative leadership and should be well organised, resilient and motivated and able to demonstrate effective communication, interpersonal and human resource developmental skills to affect change and to modernise Bank of Maldives to international standards. Experience in the automation of banks, developing international and domestic syndicated business and the ability to secure short and long term credit lines from international sources would be an added advantage.

Terms of Appointment:
Remuneration will depend on qualifications and experience. The package includes tax free salary plus other benefits including housing, car, medical allowance, relocation allowance, annual air fare home and 20 days paid holiday a year.

The appointment is initially for two years from January 1999, with scope for further extension depending on need and performance.

Closing Date for the Application:
Suitable candidates should apply to the address below by 12th August 1998 providing detailed curriculum vitae, salary history, and expected salary.

Applications Address:
Public Enterprises Monitoring Unit, Ministry of Finance and Treasury, Ameenee Magu, Male', 20-03, Republic of Maldives.
Fax: + (960) 32 4432,
E-mail: minfin@dhivehinet.net.mv.

Junior Economist
European Emerging Markets

Competitive package · London

Morgan Stanley Dean Witter, a leading global Financial Services firm, has earned an enviable reputation for innovation, integrity and enterprise in a volatile and dynamic business.

Now the opportunity has arisen for a capable and highly motivated team player to support one of our Senior Economists in the forecasting and analysis of EMEA countries.

To succeed in this challenging role, you will need a strong degree in Economics, ideally supported by a post-graduate qualification and/or one to two years' related work experience. Excellent verbal and written communication skills are essential, along with expertise in:

- data gathering and analysis
- economic modelling
- spreadsheet analysis

Any central European languages would be a further advantage.

Please send your full CV and a covering letter explaining why you are interested in a career in Emerging Markets, to: Debbie King, Morgan Stanley Dean Witter, 25 Cabot Square, Canary Wharf, London E14 4QA

Closing date 24th July 1998.

MORGAN STANLEY DEAN WITTER

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Financial Times

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Contact:

Keeley Pope Tel: 0171 873 4006
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FINANCIAL TIMES
No FT, no comment.

ACCOUNTANCY APPOINTMENTS

Group Treasury & Tax Manager
Multinational Electronics Group

c.£70,000 + Car + Benefits **Surrey**

Newly created position in £350 million turnover plc with 24 *international subsidiaries. Strong European presence with strategic* alliances in US and Asia. Excellent share of fast-growing market, strong links to premier suppliers. Well established blue-chip customer base.

THE POSITION

- Build and manage a proactive treasury and tax function. Implement group treasury policy. Report to Group Finance Director.
- Maximise utilisation of group's cash resources, minimising foreign exchange exposure. Manage and develop banking relationships ensuring effective investment strategy. Ensure available funding to support international expansion.
- Full responsibility for corporate tax planning and compliance in conjunction with external advisors. Implement best practice tax strategy amongst existing operations and advise on tax implications of past and future company direction.

QUALIFICATIONS

- Graduate calibre qualified professional with experience of managing group treasury and tax planning functions in an international environment. (Perhaps have ACT or ATII qualifications).
- *Technically excellent with proven record of academic* achievement. Record of success in an international treasury function. Proficient working on a pan-European basis.
- Confident communicator with the ability to influence at board level and with outside institutions.

Please send full cv, stating salary, ref LG200234, to NBS, 54 Jermyn Street, London SW1Y 6LX
Fax 0171 491 0447 Email estellec@nb-selection.co.uk Tel 0171 493 6392

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NB Selection NBS Financial Management
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Leading Construction Group

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Critical strategic role for senior finance professional with widely-regarded national firm.

THE COMPANY

- Leading European construction group. Operates in over 20 countries; £2bn+ turnover. Highly acquisitive.
- £500m UK division provides integrated design and construction services. National coverage with strong regional presence.
- Strong quality culture and customer focus. Committed to further significant growth.

THE POSITION

- Full responsibility for finance function. Direct all statutory and management accounting. Strategic input to planning and forecasting process.
- Manage tax, treasury and investment issues. Control insurance and warranty arrangements. Administer company secretarial and pension affairs.
- Liaise with auditors and other external advisers. Lead national team of c60; report to Chief Executive.

QUALIFICATIONS

- High calibre senior finance professional. Qualified accountant, ideally ACA. Minimum 15 years' PQE in construction or related contracting business.
- Commercially minded. Strategic vision coupled with strong technical skills. Detailed knowledge of statutory and taxation environment.
- Experienced, credible manager. Immediate impact at all levels. Well-rounded, persuasive communicator.

Please send full cv, stating salary, ref SL200231, to NBS, 7 Shaftesbury Court, Chalvey Park, Slough SL1 2ER
Fax 01753 819228 Email nicholasw@nb-selection.co.uk Tel 01753 819227

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NB Selection NBS Financial Management
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Financial Planning and Analysis

£ Excellent + Bonus + Flexible benefits + Share options

Based Hammersmith

At ICO Global Communications we're taking mobile communications technology to new levels. When our state-of-the-art system goes into commercial service in the year 2000, it will use 12 satellites and 12 networked ground stations to provide mobile voice and data links between any two points on the planet. This historic project has attracted individuals from all over the world and is backed by more than $2 billion of investment from 60 leading telecoms and technology companies in 51 markets. At this stage in our development we are looking for two financial professionals to join us in our Financial Planning and Analysis group.

[illegible]

Reporting to the director of financial planning and analysis, you will initially set up a system to identify revenue streams and their associated costs to derive comprehensive,timely and accurate reports of product and regional/country contribution/profitability. Thereafter you will maintain the system, reporting product, country and regional profitability.

Key tasks will include:

- Close co-operation with product and regional managers to understand and identify products.
- Development of tracking systems to identify direct variable and other costs
- Development of an overall profitability/contribution matrix
- Provision of guidelines on margin retention
- Provision of financial guidance during the development of new products.

The successful candidate will have an appropriate accounting qualification and a successful track record within the telecoms (preferably cellular) sector. Advanced spreadsheet, database and other data manipulation skills, preferably including experience with Hyperion MBA/Pillar, will be required.

Ref: JJ020

[illegible]

Reporting to the director of financial planning and analysis, you will develop systems to identify, invoice and collect ICO revenues. You will also ensure that invoices comply with legal, taxation and contractual requirements.

Key tasks will include:

- Invoice production and delivery
- Working with the treasury group to develop collection methods
- Manage receivables
- Development and implementation of inter-operator and settlement systems.
- Development of invoice validation processes.

You should have an appropriate accounting qualification, with at least 2 years post qualification experience. It is important that you have a practical knowledge of invoicing systems. Ideally you will have telecoms experience, be skilled in data manipulation and have detailed knowledge of accounting systems.

Ref: JJ019

Successful candidates will be expected to be self-starters and capable of being at ease within a fast-moving global organisation.

To apply, write (quoting appropriate ref and enclosing a comprehensive CV and current salary details) to: The Resourcing Centre, ICO Global Communications, 1 Queen Caroline Street, Hammersmith, London W6 9BN. Fax: 0181 600 0660, email: recruit@ico.com. To find out more about ICO and the future of mobile communication, visit www.ico.com

ICO

Financial Controller

Progressive Brand Name

Our client is a leading name in high street retail. Recent developments have impressed Consumers, Media and the City alike. Poised for the next stage of its challenging but exciting plans, the business now seeks a Financial Controller. Reporting to the Finance Director, your specific responsibilities will include:

- Working with commercial management to drive the business forward
- Providing management information, analysis and advice for key business decision-making
- Ensuring that all financial processes are run to maximum effectiveness and efficiency
- Leading, developing and motivating a large team

M4 Corridor

In order to be an integral part of these significant business developments you will be a Qualified Accountant with a high level of commercial acumen and a strong track record of achievement. You must demonstrate an easy ability to build relationships at senior levels and through these relationships influence and persuade. Your commercial credibility and personal stature will be instrumental in your success. You will have the energy and enthusiasm to drive through positive change and the people skills to nurture and grow your own team. Excellent opportunities exist on successful completion of this role.

£60-70,000, bonus, car

Interested candidates should write with full CV, quoting current rewards package to Karen Wilson, Hoggett Bowers, 28 Essex Street, London WC2R 3AX, Tel: 0171 970 9600, Fax: 0171 936 3974, quoting ref: LKW/17823/FT.

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FINANCE DIRECTOR

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C£70,000 + CAR + SIGNIFICANT EQUITY STAKE — **NORTH WEST**

Our client is a successful, rapidly expanding and highly profitable discount retailer operating in the North West. Continuing growth and ambitious expansion plans have created the need for an articulate, highly professional, clearly focused Finance Director who can join the Board and help achieve flotation within three years.

The role has a broad commercial remit including responsibility for IT strategies together with the development of rigorous financial controls and reporting systems. You will work closely with the Chief Executive and the other members of the management team in planning and developing the business both organically and through new store openings and acquisitions.

Your ambition and enthusiasm will supplement first class communication skills, professionalism and integrity. Adept and confident in managing change, you will be a qualified accountant, probably mid 30's upwards and you must possess an exceptional record of achievement in a retail or trading environment ideally with a major household name. Experience of corporate finance would be a further advantage.

This exceptional opportunity provides excellent career prospects and, by including a significant stake in the equity of the company, the potential exists for considerable capital growth.

To apply, please send your CV in confidence quoting reference 7070 to Stuart W J Adamson FCA at Adamson & Partners Limited, 10 Lisbon Square, Leeds LS1 4LY. Tel: +44 (0) 113 245 1212. Fax: +44 (0) 113 242 0802. E-Mail: stuartadamson@adamsons.com

ADAMSON & PARTNERS

INTERNATIONAL EXECUTIVE SEARCH & SELECTION

Director & Financial Controller

Multi-site Operations FTSE 100 Group

West Midlands — **to £45,000 + Car + Bonus**

Our client is a subsidiary of a major £1 billion FTSE 100 engineering group who are market leaders in the design, manufacture and sale of branded electrical components and products into international markets. They have made significant investment in new acquisitions, people and products, underlining their commitment to growth.

Due to continued expansion and internal promotion, the need arises to appoint a Director & Financial Controller to take responsibility for a £32 million turnover multi-site engineering business.

The successful candidate will provide financial support to the General Manager, as an integral part of the role is the development and shaping of the strategic direction of the businesses, including potential acquisitions. Another important element will be project management including driving the implementation of common business systems to provide management with clear and concise information.

The successful candidate will be a qualified accountant, used to the standards and tight deadlines of a PLC. Experience of operating within a manufacturing environment, including an appreciation of costing and IT issues is a prerequisite, along with strong problem solving skills and the confidence to take commercially astute decisions, unilaterally, and as part of a team. As a result of these requirements, the candidate is unlikely to be below the age of 30.

This role also requires excellent communication skills and the personal credibility to operate at all levels of the business. It is a challenging role offering long term progression to a successful and committed individual.

Please send a CV and covering letter to Andrew Jones at Michael Page Finance, The Citadel, 190 Corporation Street, Birmingham B4 6QD, Fax 0121 625 3378, or e-mail: andrewjones@michaelpage.com quoting ref 436072.

Michael Page

FINANCE

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NSPCC

Head of Finance

Central London — **c £40,000**

The National Society for the Prevention of Cruelty to Children (NSPCC) is the UK's leading charity specialising in child protection and the prevention of cruelty to children. The NSPCC has an annual income of over £50 million and, supported by the generous efforts and contributions of thousands of people across the country, provides a wide range of services to 6,000 children every day.

The Head of Finance has a central role to play in the continued success of the NSPCC, managing a diverse range of financial activities at a time of increasing demand for child protection services and the launch of the biggest appeal in the NSPCC's history. Reporting to the Director of Finance and managing a team of 16, the main responsibilities of this key post are:

- Playing a lead role to ensure compliance with all external reporting requirements (e.g. SORP and subsidiary companies).
- Promoting, monitoring, maintaining and improving financial management systems.
- Analysing and interpreting actual financial performance.
- Providing forecasts and projections to accurately identify the implications of both current and future NSPCC strategies.
- Ensuring that effective accounting and control systems are in place.

The successful candidate will be a qualified accountant with proven experience at senior management level. Excellent interpersonal skills and the ability to manage people effectively at a time of change are essential as is a hands-on approach. An understanding of the Charities Act 1993 and SORP requirements would be an advantage.

Interested candidates should write, enclosing their CV and details of current package, to Matthew Morris at Michael Page Finance, Page House, 39-41 Parker Street, London WC2B 5LN. Fax 0171 831 6293. e-mail: matthewmorris@michaelpage.com Please quote ref 425074. The NSPCC is committed to equal opportunities. Registered Charity Number: 216401

Michael Page

FINANCE

Corporate Finance Manager

GKN plc

West Midlands/London — **Exceptional Package**

GKN plc is one of the UK's most successful global companies and is committed to continuing growth. With sales in excess of £3.5 billion, some 35,000 employees and operations in more than 40 countries around the world, GKN's businesses occupy market leading positions in the Automotive and Agritechnical components, Aerospace and Defence and Industrial Services markets.

Due to the high level of corporate activity within the group and as a result of internal promotions, a career opportunity has arisen within the corporate finance department. As part of a dynamic team in this highly professional organisation, you will be responsible for liaising with the operating businesses. Identifying investment opportunities and advising on and managing the acquisition and divestment process. The role will span valuations, due diligence, liaising with senior GKN executives and external advisers and negotiation through to final execution. The successful candidate will take an active role in the decision making processes.

An exceptional individual is sought to tackle this challenging role, who will be expected to have the potential to progress to the highest level.

Applicants will need to be qualified ACAs probably aged 27-35 with 'Big 5' training and preferably some corporate finance experience. Individuals of the highest calibre with other relevant backgrounds (such as investment banking) will also be considered. Successful candidates will have a high degree of self motivation and ambition combined with strong inter-personal and communication skills.

Interested applicants should send their CV to Adam Leon at Michael Page Finance, The Citadel, 190 Corporation Street, Birmingham B4 6QD. Telephone 0121 625 3380, fax 0121 625 3378. e-mail: adamleon@michaelpage.com

Michael Page

FINANCE

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OPPORTUNITIES IN TOKYO

Fortune 100 corporation

Excellent career path for qualified accountants

With some of the best known branded products in the world and with operations around the globe, our client is a prominent leader in its market. Despite the economic downturn in Asia, they are still experiencing steady growth in the region. As such, they are now pursuing an aggressive expansion plan in the region and in particular the Japan market. As a result, they are now seeking talents looking to relocate to Japan and be part of a leading blue chip corporation.

Reporting to the CFO, you will be based in Tokyo and play an integral part in this professional and dynamic team. Your duties are wide ranged from special projects management, pricing, budgeting to logistics and financial reporting. Working in a true team environment, you will participate in strategic management decisions. A number of positions are available from middle to senior management.

You will be a qualified accountant with 4 to 10 years experience gained in a Big 5 and/or commercial environment. You will have outstanding communication and exceptional presentation skills. Fluency in English and Japanese is preferred although not essential. This is a rare opportunity for an individual to develop an extremely attractive career path with a leading corporation. Interested applicants should contact Joyce Zee or Joey Ching quoting reference JZ101.

RECRUITMENT INTELLIGENCE

Unit 1503, Nine Queen's Road Central, Central, Hong Kong
Tel: (852) 2838 8886
Fax: (852) 2838 3323
e-mail: jzee@ric.com.hk

مكتبة من الأصل

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A wider management perspective with the focus on emerging markets

Finance Manager – Substantial package – City based

The St Paul is one of the world's most profitable insurance groups. We are headquartered in the US, where we enjoy a top half-ranking in the Fortune 500 list of companies by providing property/liability insurance and reinsurance services on a global scale. In particular, we are commited to a programme of expansion in emerging markets through start-up operations and some merger and acquisition activity. Our targeted areas are Latin America, sub-Saharan Africa and Australasia.

As a result of our activity in these markets, we seek to strengthen our senior management team. This influential and high-profile role carries a remit which goes beyond the traditional financial management responsibilities. Reporting to the Managing Director – Emerging Markets, you will co-ordinate the planning, reporting and control of financial management information, as well as liaising with operations in emerging markets and providing a corporate secretarial function to those independently capitalised companies.

You must be ACA-qualified, with experience of mergers and acquisitions gained in a financial services or consultancy environment. A knowledge of US GAAP would prove useful. You should have previous international experience, which demonstrates the ability to deal in multi-currencies within a global organisation, along with the credibility to interact with people from a diversity of cultures – a willingness to travel is key while spoken Spanish would be an asset. Most importantly, your dynamic approach should be balanced by the ability to fit easily into an established and professional business culture.

In addition to an outstanding package – that includes a generous salary, performance bonus and other major benefits – you can look forward to plenty of opportunities for career development and diversification.

If you are keen to influence an established company which is going through a successful period of change and growth, we want to hear from you. In the first instance, please write with full CV, quoting ref: 2208, to The Response Management Team, Associates in Advertising (AIA), 5 St. John's Lane, London EC1M 4BH.

The St Paul

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For information on advertising in this section please call

Keeley Pope on 0171 873 4006

Karl Loynton on 0171 873 3694

Ben Bonny James on 0171 873 4015

Financial Times

CORPORATE FINANCE ANALYST

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- TeleCast Communications Ltd has been set up to build a worldwide group providing services to the media, broadcasting and business communications markets. Backed by a leading private equity house the company has recently completed its first two acquisitions.
- The company plans to grow substantially over the next five years by making a series of acquisitions in Europe and the USA; flotation is likely to follow. TeleCast's ambitious growth plans have created the need for a Corporate Finance Analyst to join the small corporate team.
- Working closely with the CEO and CFO, he/she will play a key role in the identification and acquisition of businesses in the UK and overseas. Tasks include financial evaluation and modelling, monitoring acquisition targets, preparing investment proposals and liaison with professional advisors.
- Candidates will be MBA/ACA's with at least two years' investment and acquisition experience probably gained in a professional services environment such as a major accountancy practice. Candidates from the investment banking sector will also be considered.
- The role demands a highly commercial and detail orientated approach, well-honed analytical and financial modelling skills and first class communications capabilities.
- Candidates must have the intellect and pace to be effective in a dynamic, non-bureaucratic environment and the self-confidence to act rather than simply advise. Success will lead to opportunities to invest in the business.

Please apply in writing quoting reference 1685
with full career and salary details to:
Fiona Makowski
Whitehead Selection
11 Hill Street, London W1X 8BB
Tel. 0171 290 2054 Fax: 0171 290 2050
www.whiteheadselection.co.uk

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Financial Controller

Major International Group

Croydon – c. £70,000 + comprehensive benefits package

- *With turnover of £230 million, the independent UK company has grown to become one of the world's leading engineering consultancies, operating in over 80 countries and earning 66% of its revenue from its overseas markets. Privately owned by its 400 senior managers, the Group provides professional services across a wide range of high profile, multi-disciplinary projects in, for example, transportation, energy, water, buildings and communications.*
- *As Group Financial Controller, reporting to the Finance Director, you will lead and manage a department of some 60 staff reporting through the heads of Financial Accounting, Management Accounting, Tax, Treasury and Credit Management. You will maintain and develop effective financial controls and reporting systems, providing valuable management and financial information to the business, in support of its worldwide operations. As a member of the management team you will also be expected to take a leading role in the planning, budgeting and forecasting processes, as well as in acquisition studies and the management of key relationships with bankers and other funding institutions.*
- *Although experience of the major project environment would be an advantage, the core requirement is for a high quality, professionally qualified accountant with previous experience of managing a substantial finance function. Technically able, your experience will have been gained in a large group with sophisticated, international operations. Energetic and analytical, with well developed communication and leadership skills, you will have the personal credibility to earn the respect of colleagues and senior management throughout the organisation. There are excellent prospects for further career development.*

If you wish to be considered for this opportunity, please send your curriculum vitae, including details of current remuneration and a summary of how you meet the requirements, to Neil Cameron at Ernst & Young Executive Search & Selection, Rolls House, 7 Rolls Buildings, Fetter Lane, London EC4A 1NH, quoting ref: NC0258.

ERNST & YOUNG

The United Kingdom firm of Ernst & Young is a member of Ernst & Young International

European Corporate Auditor

Continental is one of the world's largest tyre manufacturers with an annual turnover approaching DM12 billion

They are committed to developing and supporting their global operations and hence adopt a policy of only recruiting high calibre individuals who possess a genuine international outlook.

As part of this commitment, they now wish to recruit an additional Corporate Auditor to be based at Continental's Head Office in Hannover.

Your brief will be to liaise with the Group's 'local' management with the goal of improving business performance by reviewing operational and financial processes and procedures including risk management. To succeed in this role you will possess first rate interpersonal skills, be able to inspire trust and confidence with colleagues and have the ability to represent 'best practice' audit techniques and methodologies.

You should be a qualified accountant with at least three years' post qualification experience gained within industry, a consulting practice or a 'big six' firm. Fluency in German and English is required and an additional language would be an advantage.

This is an excellent opportunity to gain large international company experience on a broad range of assignments before moving into line management and therefore, you should be a confident self starter, have well developed business acumen and be able to relate to the key business drivers within Continental's business.

To apply, please write enclosing a full curriculum vitae including salary details, quoting reference MD6029 to Julian Westwood at Macmillan Davies Hodes, 42 Calthorpe Road, Edgbaston, Birmingham B15 1TS, telephone 00 44 (0)121 455 9735, fax 00 44 (0)121 454 8401, email westwooj@mdh.co.uk.

For more information please visit http:www.careermosaic-uk.co.uk

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Continental

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MIGA

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The Multilateral Investment Guarantee Agency (MIGA) is a member of the World Bank Group (WBG), created to enhance the flow of foreign direct investment by providing *investment insurance* against non-commercial risks and *technical assistance* to developing countries. Technical assistance is provided through MIGA's Investment Marketing Services Department (IMS). IMS seeks a Program Manager for Information Products and Services to manage several information-technology based programs to facilitate communications and data sharing among international investors and investment promotion organizations.

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Qualifications: Minimum of a Masters degree in economics, business, information management, or related field. At least ten years professional experience in an international role, including at least 3 years senior experience in the field of information and/or knowledge management. Conversant with state-of-the-art tools for training and information dissemination, including Internet, interactive CD-ROM, and video. Strong leadership skills and the ability to work as part of a team. Mastery of English required.

MIGA offers an internationally competitive compensation package. Qualified candidates should send cover letter and detailed CV no later than July 20, 1998, to MIGA Department of Central Administration, 1818 H Street NW, Room U12-025, Washington, D.C. 20433. Fax: 202/522-2660. Only shortlisted candidates will be contacted.

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Having established its European Headquarters in London, DLJ has recently made a number of strategic investments to consolidate its presence in the UK and now employs over 800 staff in London.
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An expert knowledge of Powerbuilder and its interaction with Oracle is essential, as is a knowledge of the financial services industry and back office operations.

ORACLE/SQL TEAM LEADER [illegible]
This high profile role holds responsibility for leading a team of Oracle/SQL developers in the design and creation of key database modules that will form part of a new back office infrastructure. *The successful individual will be* expected to offer substantial strategic input into the systems design and will liaise extensively with the business.
An expert knowledge of Oracle is essential, as is a knowledge of the financial services industry and back office operations.

[illegible] DBA
This role will require building a close working relationship with the New York Head Office. The successful candidate will also have responsibility for the maintenance and *support of Oracle development* and *production* servers and monitoring database performance.
An excellent knowledge of Oracle is required, as is knowledge of UNIX. Whilst banking experience is preferable for this role it is not essential.

5 ORACLE/SQL DEVELOPERS AND 2 POWERBUILDER DEVELOPERS [illegible]
These excellent entry point roles offer the unique opportunity to be involved in the creation of key components that will form part of the new equities system. *These roles will involve extensive* liaison with users and various IT teams.
Suitable applicants should possess a good *knowledge of* their relevant products, with experience developing specifically in that Product. A background in financial services would be preferred but is not essential.

TECHNICAL TEAM LEADER - EQUITY DERIVATIVES (5 YEARS + EXPERIENCE)
Leading a small team with responsibility for the design, coding and implementation of new interfaces and enhancements. In addition the team supports front and back office applications, facilitates problem solving and *performance monitoring*.
Knowledge of Powerbuilder, Oracle (or another RDMS *such as Sybase), NT, VBA and Microsoft Office Suite* are required. Suitable candidates will have a financial services background and a knowledge of derivative markets is preferable but not essential.

2 FRONT OFFICE ANALYST/PROGRAMMERS (3 YEARS + EXPERIENCE)
In addition to the design and coding of systems development initiatives, these roles will carry responsibility for the management of vendor resources to implement solutions. Liaison with front office staff and back *office development teams will be ongoing*.
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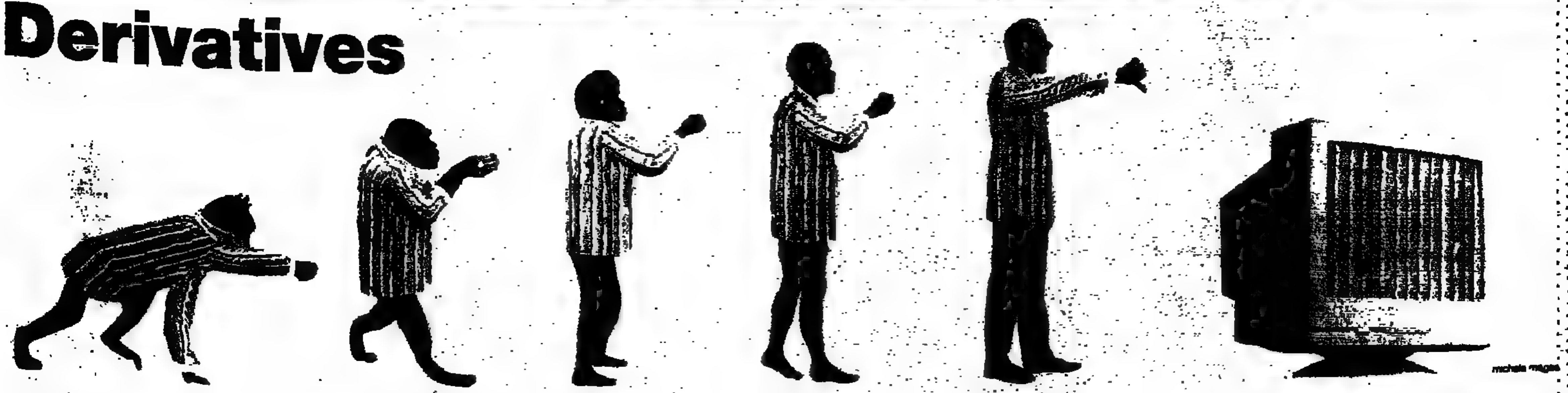
Derivatives



Open outcry is being edged out in the battle for survival as evolution points to an electronic future, writes Simon Davies

Turbulence threatens flourishing markets

The headline numbers on activity in the world's derivatives markets suggest an industry flourishing in the midst of a five-year bull market.

After two years of declines, the turnover of exchange-traded derivatives contracts grew by 11 per cent to $356,800bn, according to the Bank for International Settlements.

Activity was fed by interest rate uncertainty, the turbulence in Asia, the boom in stock markets, and the desire to hedge against any upsets in the lead-up to European economic and monetary union.

The Chicago Board of Trade (CBOT) capitalised on its position as the world's busiest derivatives market place. And despite the onslaught of European competition, the London International Financial Futures and Options Exchange (Liffe) moved into second position, and recorded 6 per cent growth in the first half of this year.

Currency swaps activity may have been subdued by the impact of the birth of the euro, but there was substantial growth in equity and interest rate products.

Meanwhile, in the over-the-counter markets, growth slowed, but the numbers remained striking. According to the International Swaps and Derivatives Association (ISDA), the value of outstanding OTC derivatives grew by 13 per cent to $28,733bn in June 1997 (the latest available data) compared with the end of 1996, having grown 44 per cent in 1996.

However, these buoyant headline numbers mask considerable turbulence below, and derivatives market participants are reeling from a number of external shocks which will determine the industry's profitability going forward.

One of the key themes of the coming year will be Emu. This is both a threat and an opportunity, since it will remove much of the interest rate and currency swap business from 11 countries. And it is changing the shape and structure of Europe's capital markets, as demonstrated by the recent far-reaching alliance between the London and Frankfurt stock exchanges, aimed at creating a genuinely pan-European stock market.

William Winters, managing director at J.P. Morgan, estimates that 15 per cent of the bank's derivatives revenues will evaporate as a direct result of Emu. The challenge is to find replacement revenues.

Euro currency and interest rate swaps will clearly become more substantial products, attracting greater international interest.

Nevertheless, margins will be lower and total volumes will be less than those of the 11 currencies that preceded it, given the loss of hedging for intra-eurozone business and investment.

And all this is happening at a time when standardisation of products around the globe has brought down profit margins from selling derivatives.

The industry's hope is that this will be more than offset by new growth products, such as equity derivatives and credit derivatives. And so far, there is some cause for optimism.

The credit derivatives market – which includes protection against outright default, credit spread widening and total return swaps – has exceeded the most aggressive projections.

This is great business for the derivatives houses. Credit protection has been part of commercial banking for centuries, but derivatives have turned this into a flexible and tradeable product.

And this product is evolving at a time when banks are keen to optimise capital structures, and can use credit derivatives to pass on risk and reduce their regulatory capital. And finally, the explosion in emerging markets investment has heightened demand for credit protection.

"I am very bullish about this business", argues Hermann Watzinger, vice-president of global markets at Citibank. "The biggest application is where commercial banks are managing their corporate loan portfolios, and you will see huge volumes from this."

The credit derivatives market quadrupled between 1996 and 1997 according to the British Bankers Association, which is now projecting a market value of £740bn by 2000 – $640bn more than the BBA's own projection for the credit derivatives market just a year earlier.

Christopher Goekjian, president and chief executive of Credit Suisse Financial Products, said: "There are not a lot of ways to get returns. You take credit risk or equity risk. These have been the biggest growth areas in Europe, and I expect this trend to continue."

There has been a substantial shift out of bonds and into equities in Europe, creating substantial demand for portfolio hedging. And at the same time, the volatility in emerging markets has demonstrated the virtues of derivative protection.

This has not been entirely good news for the industry. In the midst of its merger with Swiss Bank Corporation, it emerged that UBS Securities has lost SFr625m in its equity derivatives business. Other banks have also taken considerable pain. Much of this came from a mis-pricing of volatility, a key component in derivatives valuations.

As Mr Goekjian said: "The losses in Asia were substantial. For derivatives books, these were probably the biggest credit losses ever experienced by these banks. The derivatives industry is definitely going to be reining in from here. There will be a lot of internal clampdowns."

The growth of the equity derivatives market is therefore being constrained, as banks limit their exposure. Nonetheless, it is clearly an area where the industry will be concentrating resources over the next year.

In the longer term, there will be other growth products. Insurance derivatives must inevitably lead the way in transferring risk from the traditional insurance markets through to the capital markets, although this has long been predicted and little progress has been made. And there are plenty of quirky new additions to the futures roster, from environmental products such as sulphur dioxide to weather futures.

How these products of the future will be traded is a moot point that is concentrating the minds of executives at the world's futures exchanges, as they face the biggest competitive onslaught in their history.

It all started in Europe, where the threatened loss of substantial eurozone currency and interest rate swap business has sparked a push for consolidation among the numerous exchanges within the first wave of countries to join Emu. It has been followed by strategic shifts that are shaking the more established exchanges in London and Chicago.

The battle kicked off with Germany's Deutsche Terminbörse (now Eurex) using its low cost electronic trading platform to buy back market share in the German government bond futures contract from Liffe, which had dominated trading.

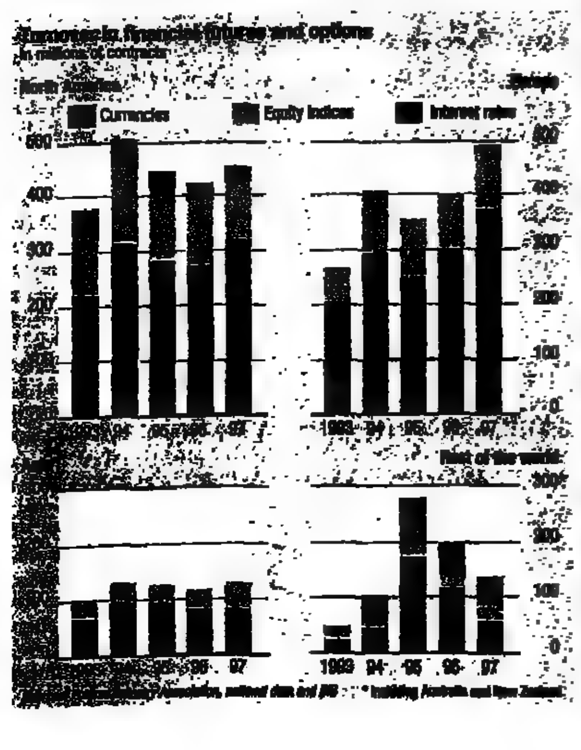
The DTB won, and showed for the first time that an electronic exchange can compete with established open outcry markets.

Liffe's response has been to promise the introduction of electronic trading on all products during 1999. And even in Chicago, the last bastion of open outcry derivatives trading, there is the threat of electronic competition from a proposed exchange formed by the New York Cotton exchange and Cantor Fitzgerald.

Mr Winters argues: "The days of open outcry are numbered. There is so much competition, and the market has voted for the trend towards electronic trading. There will be no mercy shown, and some of the players will become casualties."

There could also be knock-on effects from the introduction of US regulations on accounting for derivatives.

So the derivatives markets may be offering record turnover and exciting new products, but participants are not in celebratory mood.



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ECONOMIC AND MONETARY UNION • by Edward Luce

All the eggs move towards one basket

The most pressing question in the region is that of consolidation

Europe's derivatives exchanges face the most important crossroads in their short history when monetary union takes place in January. In spite of the recent debates about technology versus open outcry, the most pressing question is consolidation: is there room for more than one big exchange in euroland?

For some, the answer is already clear. With the recent tie-up between Paris-based Matif, Europe's third largest exchange, and Barcelona-based Meff, the fourth largest, the process of consolidation is accelerating. If you include the creation of Eurex – the merger between Soffex, the Zurich-based exchange, and the Frankfurt-based Deutsche Terminbörse earlier this year – and talk of links between Matif and its counterparts in Portugal, Italy and Belgium, the outlines of a single alliance are already discernible.

All that remains for the jigsaw to be completed is the go-ahead of the alliance between Matif and Eurex, the "Euro-alliance", which was initialled earlier this year. Assuming that it does – cross-membership between Matif and Eurex starts in September – the loose precursor of a big alliance of exchanges would then be in place.

Members of Meff would be able to trade products listed in Paris through their tie-up with Matif, which would by then have in place an equivalent arrangement with Frankfurt thus providing its partners with back-door access to products listed on Eurex. And so on with all the other exchanges in euroland, assuming all have secured access to either the DTB or Matif by then.

There will, of course, be complications, not least in the distribution of fees between exchanges and in the development of a common settlement system which is likely to take years. But the basic matrix of a confederation of exchanges trading the same exclusively screen-based products in co-operation – rather than in competition – with each other would be in place. Where would this leave the London International Financial Futures and Options Exchange, which is still, on some measurements, the largest in Europe?

Of course, the UK will remain outside the eurozone for the early stages at least. But Liffe's past success has been based on winning offshore benchmark contracts, such as the future on the German government bond and the contract on three-month lira interest rates. Whatever the outlook for sterling, therefore, Liffe needs to win a substantial portion of the market in euro-denominated futures and options to remain viable as a large exchange after monetary union.

Given the fact that the DTB has won more than 90 per cent market share in the future on the 10-year German bond contract and Liffe retains about 99 per cent share of trading in the three-month D-Mark future, it is possible to predict the division of spoils after Emu. "Unless something dramatic happens, Liffe will dominate the short-end of the euro market and the DTB will dominate the long end," says the derivatives chief at a US investment bank in London.

The field is still wide open for competition in the equity derivatives market where Liffe will offer a future on the Eurotop 100 index of European companies and the DTB and Matif will offer a future on Stoxx 50 - a rival index. And there will continue to be competition for some of the smaller benchmarks, including possibly new contracts in emerging market currencies and bonds which will eventually fill the gap left by the abolition of eleven European currencies. The smart money is on a zloty or a rouble-denominated contract.

Few in the market believe there is much scope for a link-up between the DTB and Liffe, not least because there is such fierce rivalry between Frankfurt and London in general. In any case, although the universe of derivatives will shrink with the advent of a single currency, there will still be sufficient business to justify at least two exchanges. "The market does not want to see one exchange in Europe," says the head of a brokerage firm in London. "Competition between Liffe and the DTB has led to much lower fees on both exchanges."

For the time being, the DTB retains the advantage over London while Liffe develops its daytime electronic trading system. Liffe has shifted some contracts on to its after-hours trading system, known as APT. But owing to its limited design and the lack of a proper network, APT screens cannot be deployed outside of London except at prohibitive cost. Liffe Connect, its new system, will be available in other financial centres such as New York and Frankfurt and will be much easier for remote users to access. But, owing to the fact it will not be up and running until mid-1999, the DTB will retain the cost advantage for the first few months of Emu.

Elsewhere, there will still be room for peripheral exchanges to survive outside of the eurozone. OM, the Swedish exchange, and the fifth largest in Europe, has resisted overtures from other continental exchanges and clearly wishes to retain its independence. The Stockholm-based exchange will shortly launch a future on the 10-year Swedish government bond. The DTB is contemplating a rival contract. The smaller exchanges within the eurozone, such as Mif in Milan and Belfox in Brussels, are likely to retain nominal independence, but will effectively be subordinate to the broader alliance.

In full cry, but not for much longer. Liffe, CME and CBOT will soon have to switch to the electronic age

Pictures Reuters, AP, CBOT

ELECTRONIC TRADING • by Edward Luce

Outcries shift to cyberspace

Speculation centres on how exchanges will now compete with each other

At a recent derivatives conference in London, executives were asked to debate whether future exchanges were "enjoying their last good years". The motion was narrowly defeated. Christopher Sharples, former chairman of the Securities and Futures Authority, was quoted as saying: "It is not all over bar the shouting; it is all over, especially the shouting."

The change of tone in the derivatives business over the last few months has been dramatic. Just six months ago the debate would have focused on whether "open outcry" floor trading was still viable.

The answer – given the recent 96 per cent majority vote in favour of electronic trading at the London International Financial Futures and Options Exchange – is now considered so obvious it is hardly worth asking the question. Even the Chicago Board of Trade and the Chicago Mercantile Exchange – the last, albeit prominent, defenders of "open outcry" – are making contingency plans for a move to daytime electronic trading.

As a result, speculation has now shifted to the ways electronic exchanges will compete with each other in the cyber age and which will survive the transition.

Senior executives on Europe's leading exchanges speak with one voice when it comes to the type of electronic trading system they want to develop. The buzzword for the software of the future is "open architecture" or "Application Programme Interface". This describes the type of trading system which allows users the easiest possible access to other electronic trading systems from the same screen.

Simon Orebi Gann, head of software at Liffe, says that exchanges will live or die on the quality of their software. And this – owing to the demands of the increasingly powerful customer base using derivatives exchanges – means providing the most open trading systems available.

"Customers are losing their old-fashioned loyalty to the exchange and are looking more and more at the bottom line," says Brian Kaye, head of Fimat, the French brokerage house. "They don't care where they execute their deals, as long as it is quick and easy."

Probably the best example of an open architecture system is the one used by Matif, France's derivatives exchange. The software, known as NSC-VF, was developed by GL, a software company which is 51 per cent owned by SBF, the French stock exchange and also 100 per cent owner of Matif. SBF has licensed the software to more than 10 cash and derivatives market exchange around the world.

The system, which enables the user to switch to another exchange at the click of a mouse, is considered the most modern available. However, several "front-end" software companies (which specialise in integrating outside electronic systems with in-house software) have complained that access to NSC-VF is difficult unless you go through GL, the company that developed the system. "For practical reasons NSC-VF is not as open as you would hope," says the head of one front-end company in London.

Liffe, which has undergone a road-to-Damascus conversion to electronic trading, reckons its trading platform will be even more open to users than NSC-VF. The system, Liffe Connect, will be available for trading in equity options in November and for other products by mid-1999. The system used by the DTB, however, is almost eight years old and is due to be replaced in two or three years. "The DTB's system is probably one of the least open and least modern so it needs to upgrade quickly if it is not to fall behind," says one software specialist.

However, in spite of the development costs, setting up an open architecture system is relatively simple in comparison to the other objectives the market is increasingly dictating. Of these, perhaps the most thorny is the growing demand for a common settlement system. Owing to the fact that all the big exchanges have the same large institutional investors as their leading members, the market is increasingly demanding a simplification of clearing and settlement.

Some even predict that the big customers will force exchanges to merge their clearing and settlement facilities to minimise costs for the user. Under such a system, a bank with large positions on several exchanges could lower costs by offsetting a credit (or a "short" position) on one exchange against a debit (or a "long" position) on another if there was one house to clear the transactions.

The big users of derivatives exchanges consider such benefits – known as cross-margining – to be increasingly important. Indeed, the leading member clients of the CBOT and the CME have recently compelled the two exchanges to merge their respective clearing houses under one roof, while at the same time remaining separate – and competing – exchanges. "It is not in the interests of the market to see a consolidation of exchanges because competition lowers costs," says the head of one derivatives exchange in Europe. "However, again, because of costs, the market wants to see one big clearing house in Europe as well as Chicago."

Realistically, few in the market expect such an outcome in the near future. The political obstacles to a merger between the London Clearing House (which clears trades for Liffe), for example, and the banks which act as clearers for the DTB would be high.

Setting up a common electronic trade registration and settlement system would be difficult enough. But, considering the pace at which the industry has evolved recently, it would be unwise to dismiss anything as "unrealistic".

CLEARING AND SETTLEMENT • by Michael Prest

Clerks step into limelight

Hitherto largely clerical market functions are becoming profit centres

Derivatives clearing and settlement are fast moving out of the obscurity of the back office and into the limelight of intensifying competition and innovation. These essential but hitherto largely clerical market functions are becoming profit centres in their own right and are on the verge of expanding from their main domain of exchange-traded contracts to the highly technical world of over-the-counter (OTC) contracts.

Ian Woodley: clients are opting for a one-stop shop Lydia van der Meer

Clearing and settlement are simply the process by which buyers and sellers of contracts match up their transactions and settle how much they owe each other. The business is carried out on exchanges by clearing brokers, who consolidate clients' trades for a fee. Behind them stand clearing houses, such as the London Clearing House (LCH), which become principal to the final transaction and guarantee it.

Several forces, however, are transforming this relatively humdrum, if vital, business. Instruments are becoming more complex, especially in the OTC markets. At the same time, banks and brokers are more aware of risk than ever. Technology is helping to improve the quality of clearing and settlement. Rising volumes are making clearing an attractive business, while a diminishing number of organisations have the capital and technology to offer a global clearing service.

Behind many of these trends lies the relentless pressure from customers to cut costs. "Everyone wants the best possible service at the lowest possible cost," says Ian Woodley, who runs clearing and settlement for Nomura International, the big Japanese securities house, in London.

One consequence of this pressure is that clients want an integrated service, from trading, through clearing settling, to providing electronically the figures that enable them to calculate their position and determine trading strategies. Known as "straight-through processing", this is the technological ideal for derivatives clearing and settlement.

Clients love the idea because it reduces further the costs and risks associated with errors in matching and settling transactions, as well as improving the quality and timeliness of information. Replacing mountainous paperwork, the curse of clearing, with electronic processing, is seen as an unalloyed benefit. Mr Woodley said: "The client is definitely moving towards a one-stop shop."

So far, however, straight-through processing is more an ambition than a reality. Otto Nägeli, deputy chief executive officer of Eurex, the alliance between the Frankfurt and Zurich derivatives markets, says: "Eurex is the only exchange world-wide which offers an integrated trading and clearing platform."

As derivatives trading volumes have risen, often dwarfing more familiar cash markets, some houses have seen the advantage of turning their back office into a profit centre. But the size of the investment required, particularly as the technology grows more sophisticated, suggests that only a select handful of clearing brokers will be able to provide a global service. Some industry sources believe there will be just eight or 10 within a few years.

Competition is not confined to the usual banks and leading securities houses. The major bond clearing organisations, such as Cedel and Euroclear, are entering the fray. These organisations have the technology and experience derived from clearing bonds on a huge scale. The total average value of triparty repo deals outstanding with Euroclear at any one time is about $30bn.

The main reason they are eying the derivatives market, however, is risk. First the Barings collapse, then the demise of the "Asian Miracle", made traders very wary of their potential exposures in derivatives transactions, especially swaps. One way of reducing exposure is through insisting on collateral. Clearing houses do this by requiring margin from clients dealing in exchange-traded contracts.

Now nervous traders require collateral for OTC trades. The development reflects the astonishing growth of OTC business, and the sometimes "rocket science" ingenuity of OTC products. These make up a strange lexicon of names such as swaps, caps, collars, floors and floating rate agreements (FRAs).

Euroclear has long been involved with derivatives markets, for example in arranging settlement of futures on delivery against payment. But Ignace Combes, managing director and head of market services at Euroclear, says: "Derivatives are becoming more and more collateralised. It's been a very rapidly growing business for us." Over the past year or so, managing collateral for derivative transactions has risen from very little to about 10 per cent of Euroclear's collateral management business.

Euroclear and Eurex, among others, are also hoping to take advantage of the euro. The widespread expectation is that the single European currency will accelerate cross-border transactions in Europe and increase demand for pan-European clearing and settlement services. At the same time, cash and derivatives markets are expected to draw closer together.

So rival exchanges across Europe are treating clearing and settlement as a competitive weapon in the "battle of the bourses". The biggest volumes and deepest liquidity are the goals. Cheap and efficient clearing and settlement are an increasingly important part of the strategy for attracting business and reaching these goals.

Even OTC contracts are falling prey to this competition. Clearing has so far been mostly confined to exchange-traded contracts because they are standard. No two OTC contracts are necessarily alike. But the LCH, which clears all the major London derivatives markets, old-fashioned commodities as well as newfangled financial contracts, plans also to offer global settlement of relatively straightforward OTC contracts such as interest rate swaps and FRAs.

The new service will be called SwapClear. Sara Williams, head of business development at the LCH, says: "The aim is to provide an efficient settlement service which will reduce banks' credit risks and capital requirements. SwapClear will not standardise trading. It will cover anything that swap traders discuss on the phone. OTC trading will stay exactly the same as at the moment."

The LCH argues that in practice many OTC contracts, particularly swaps, have evolved into fairly standard products. The main participants in these markets, chiefly banks, will gain from transferring risk to the LCH and reducing credit lines, saving regulatory capital, and improving operational efficiencies. The swaps market is huge and Ms Williams expects big volumes when the service starts next year.

In Europe, the Swedish options market and Eurex already offer some clearing of OTC contracts. But the LCH's plan is much more ambitious. It may be another stage in the slow taming of derivatives markets.

PROFILE **Chicago Board of Trade**

No time to be complacent

After 150 years in futures dealing, the Chicago Board of Trade could be forgiven for being complacent.

The volume of contracts traded on the world's largest futures exchange continues to grow year after year, and new products such as its Dow Jones future are proving popular with customers.

But delivering his mid-year report to members last month, Pat Arbor, CBOT chairman, stressed complacency was one thing the Board of Trade could ill afford. Likening the exchange to a typewriter maker, Mr Arbor said it could not "sell typewriters while the world awaits the latest upgrade to Windows".

The analogy is especially apt because computers are at the heart of a sea change now taking place in futures exchanges, as screen-based trading threatens to make the open outcry dealing floor obsolete.

In April, Matif of France, Europe's fourth largest exchange, moved to electronic trading and closed its dealing floor only seven weeks later. Eurex, the European futures exchange created by the merger of Deutsche Treminbörse (DTB) of Germany and Soffex of Switzerland, is also based on electronic dealing.

Last month, the London International Financial Futures and Options Exchange (Liffe), which only a year ago thumbed its nose at replacing trading pits with computer screens, voted 98 per cent in favour of moving to electronic trading on all contracts by mid-1999.

Until recently, the CBOT and other US exchanges such as the Chicago Mercantile Exchange stayed faithful to open outcry during the normal trading day and allowed screen-based systems for out-of-hours dealing only.

But with Europe's large exchanges going electronic – and threats of competition from inside the US – they have been forced to reconsider. The CME, for example, is reviewing all aspects of its business.

Mr Arbor says the CBOT, too, is "ready for the challenges brought by electronic trading". Project A, its electronic trading system, will be equipped to deal round-the-clock from December, and the exchange now has 300 Project A terminals installed in brokers' offices throughout the world.

It has also floated the possibility of spinning off its Project A division to form a separate company, with shares held by board of trade members.

The CBOT has formed an alliance with Eurex to develop Project A and the DTB terminal on which Eurex trades into an integrated, global dealing system.

At the same time, the CBOT continues to stress its commitment to open outcry, and believes that progress does not necessarily mean replacing pits and people with screens and software.

Tom Donovan, CBOT president, says: "The board of trade is about satisfying the customer. We pride ourselves on being the best and part of being the best is giving the customer what they want. So if they want open outcry, we will give them that. And if they want electronic trading, we will give them that, too. By July 1999, the Chicago Board of Trade will have the best open outcry system in the world and the best electronic trading system in the world."

Mr Arbor cites the rising number of contracts being traded in the CBOT's pits as a sign that open outcry is far from dead – at least in the US, and especially in Chicago.

Last year, the exchange traded 243m contracts. This year its volumes are running 15 per cent ahead, he says, on target for 280m contracts in 1998. The Dow Jones futures contract, launched last October, has proved to be an enormous success.

The US exchanges do not face the difficulties that European economic and monetary union will bring to their European counterparts, Mr Arbor says, and the CBOT's unique position in the US will help it survive. "One of the oldest institutions in Chicago is the CBOT. It's the risk management capital of the world. We grow traders here."

One threat on the horizon, however, is the plan by Cantor Fitzgerald, the New York broker, to launch an exchange with the New York Cotton Exchange, with the intention of trading Treasury bond futures and undercutting the CBOT.

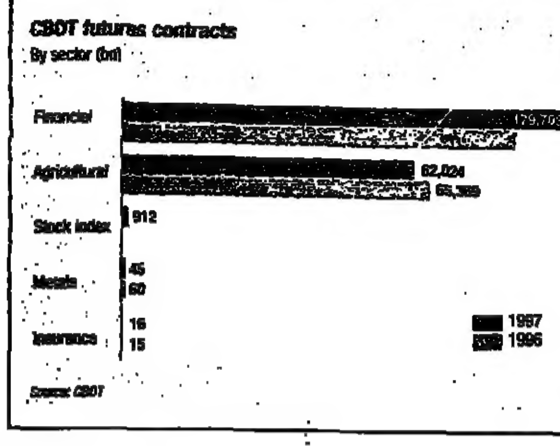
The Cantor plan is being scrutinised by the US Commodity Futures Trading Commission, and the CBOT has vigorously attacked the proposals on regulatory grounds. But Mr Arbor admits that a new exchange could have an impact on the CBOT's business.

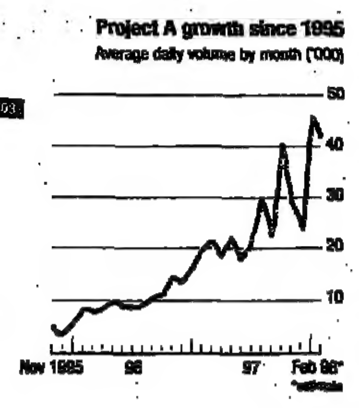
Membership has also been less of a success story. Seat values have dropped considerably in the past 10 years and have been as low as $300,000, compared with $530,000 just before the crash of 1987.

Mr Arbor acknowledges the fall in seat prices, pointing out that other exchanges such as the CME, Chicago Board Options Exchange, Liffe and the New York Mercantile Exchange have experienced the same problem.

Some of the fall can be explained by "an overreaction to the perceived threat of electronic trading", he says. But he accepts seat values – and the threat of increased competition – are two more reasons why the CBOT cannot afford to be complacent.

Paul Solman





Pat Arbor: open outcry is far from dead, especially in Chicago

EXCHANGES • by Simon Davies

Cost cuts fuel mergers

Markets are scurrying to secure a winning place in the restructuring

The birth of the euro is leading to a wholesale restructuring of European financial markets. As 11 currencies become one, the numerous futures and stock exchanges around the continent are looking increasingly redundant. And one of the natural consequences of these changes has been the push for mergers among cash and futures exchanges.

Markets are struggling to offer lower costs and more efficient systems in a bid to emerge as winners in an inevitable period of consolidation. This trend is unlikely to be restricted to Europe, as competition increases. This was demonstrated by the proposed merger between Nasdaq and the American and Philadelphia stock exchanges, which would create the US's first substantial integrated stock and options exchange.

However, the main push for mergers of exchanges has been among future members of the European single currency zone. Germany, France and Sweden have all pursued mergers of their domestic futures and stock exchanges.

As Jean-François Théodore, chairman and chief executive of Matif and the Paris Bourse, argues: "The Euro reduces trading margins and opportunities and a lot of the bread and butter of arbitrage desks in the early 1990s will vanish. Exchanges need to adjust the cost of transactions to reflect the potential rewards."

Mr Théodore argues that the rationale for merging Paris's financial markets was to reduce operating costs by using one electronic trading platform, but also to offer the benefits of an integrated trading and clearing service.

And Matif recently demonstrated the extent to which it was prepared to undercut on prices, when it announced it would launch trading in a new UK government bond contract at fees one third lower than in London.

It is too early to see the extent of the advantages that integrated exchanges will have. There is still a lack of transparency on the costs of using different markets, which protects the established exchanges, and combined systems have not been fully implemented.

However, merged exchanges should gain a considerable competitive advantage. Stephen Kingsley, partner at Arthur Andersen, said: "Integration ought to mean unified order routing and clearing and settlement. So that the users only have one point of entry and margin is immediately off-settable."

And the pressure for change will be considerable. The recent battle between the London International Financial Futures and Options Exchange (Liffe) and Frankfurt's Deutsche Terminbörse looks like the best example of what happens when a marketplace reduces its cost base. And business moved extremely quickly.

So far, a number of the mergers have been defensively driven. Clearly, with the creation of a single currency, there will be no need for the proliferation of European exchanges. Interest rate and currency arbitrage within the Emu zone will dry up, as will currency hedging for the government bond markets.

The hope is that this business will be replaced by fewer but significantly more liquid products while in the longer run, exchanges could see the development of new contracts from credit derivatives to emerging market bonds.

But in an environment of fewer but bigger contracts, the emphasis on costs and efficiency is bound to increase, and exchanges will have to respond. Alternatively, regional blocs could be created, as demonstrated by the move to form an alliance between the main exchanges in Scandinavia.

Mr Kingsley argues: "Either we will see mergers between cash and futures exchanges, or we will see the investment banks creating dealing facilities for clients that mimic such an exchange. And that is the risk for these exchanges, because it would take away sizeable amounts of liquidity."

One intriguing anomaly in this process is London, which boasts the continent's largest stock and futures exchanges. Historically, there has been little love lost between Liffe and the London Stock Exchange, and since they each operate substantial and profitable businesses, there has been little pressure to move from their independent courses.

The decision by Liffe to build a new electronic dealing system, when it could have used the London stock exchange's new SETs system, showed its commitment to independence.

Gerrit de Marez Oyens, secretary-general of the International Federation of Stock Exchanges, said: "I find it impossible to believe that the trend for convergence among exchanges will be ignored by London."

The same could even be true of the US's two big futures markets, the Chicago Board of Trade and Chicago Mercantile Exchange, which both operate open outcry trading systems.

So far, their established market positions have proved inviolable and the exchanges have the full support of the regulatory authorities, which have made competition hard to introduce.

But attempts are already being made to launch an alternative electronic trading system.

A merger between Nasdaq, Amex and Philadelphia's options exchange will clearly set an alarming precedent for their bigger competitors.

ACCOUNTING • by Jim Kelly

Standard procedures

The FASB is the first to tackle the measurement of financial instruments

On June 15 this year the Financial Accounting Standards Board of the US voted unanimously to issue a final standard on accounting for derivatives and hedging – the world's first attempt to deal with the measurement and recognition of any class of financial instruments.

It was an historic vote and although the seven members of the board followed tradition in producing a unanimous outcome on a contentious issue, there is no doubt that the FASB is firmly behind the standard and the board's leader, Edmund Jenkins, its chairman.

Mr Jenkins needs all the support he can get. The full force of opposition to the standard was awesome once it was clear the FASB was determined to press ahead. The climax came with a dramatic intervention by Alan Greenspan, chairman of the Federal Reserve, who called for a rethink saying the standard would stop hedging – a legitimate tool in curbing financial risk.

But the Securities and Exchange Commission stood firm in supporting the FASB. With the Asian financial crisis pointing to the need for international transparency on financial instruments the tide is running hard in favour of the FASB. All looks set for the standard to bite in the fiscal years begining after June 15, 1999.

The vote represents a triumph for Mr Jenkins and for private-sector accounting standard-setting in the US. Opposition in Congress and the Senate had broadened to outright attacks on the FASB and threats to bring its powers back under direct control of the government. Mr Jenkins clearly thinks he has seen off the challenge.

"Sadly there are some who would like to diminish the FASB by putting standards setting smack in the hands of the federal government, said Mr Jenkins. "They have persuaded legislators to sponsor bills that would require more government – read, political – interference in the FASB's process."

"There are trillions of dollars of derivatives transactions out there and investors didn't have readily available information about them. Unfortunately there are some who have been trying to force the FASB not to issue this standard thus preventing valuable information from reaching investors."

Mr Jenkins said that the FASB understands that derivatives can be used to hedge risk but that history shows they can also expose companies – and those who invest in them – to potential ruin. "The millions of Americans who are faced with investment decisions about their retirement, the down payment on their first home, or their children's education, have no way of knowing if a company may be in a precarious financial condition."

Now the new standard means investors will have a way of determining a company's exposure. The new standard requires companies to record derivatives on the balance sheet as assets or liabilities measured at fair value. Gains or losses would be accumulated if the derivative is being used as a hedge and would not hit profits until the hedge had unwound – hopefully with no impact. But changes in the value of speculative derivatives would hit earnings – hence the fierce opposition. The FASB's definition of hedging puts much emphasis on the effectiveness of the hedging relationship in offsetting changes in value or cash flows.

The FASB has thus recorded a world first, but will the world follow? On the face of it the rest of the world seems to be ahead – at least in theory. The International Accounting Standards Committee (IASC) is to meet in December to agree a new standard in time for it to form part of a package to be presented to the International Organisation of Securities Commissions (Iosco) – the club of world stock market regulators. If Iosco endorses the package it could form a kind of financial reporting "passport" for all companies, allowing them to list anywhere in the world with the same set of financials.


Alan Greenspan: called for a re-think Reuters

The IASC standard is very similar to the FASB rules. However, because it is being designed to embrace all financial instruments it is much broader, but it does not yet advocate a full fair value system. Some assets would still be measured at amortised cost. It is clear that the IASC has great sympathy for the FASB's halfway house approach, leaving non-derivatives for a later standard. Considering the opposition to its proposals, a standard embracing all financial instruments might have failed and taken the FASB with it into the history books. The IASC's position is less formal than that of the FASB because it does not have to enforce standards anywhere.

Member countries of the IASC are likely to move ahead on this issue at different speeds even if Iosco endorses the core package of standards. That endorsement would have to be followed by implementation in those countries which do not accept international accounting standards (IASs) – such as the US, Canada, and Japan. Even those countries which do accept the IASC often do not require domestic companies to use the accounting standards it lays down. The UK, for example, is first pushing ahead with a standard on the disclosure of financial instruments before risking the wrath of the City of London by trying to impose a measurement standard. Therefore domestic US and UK companies are unlikely to be forced in the medium term to follow a full standard on financial instruments.

Meanwhile, there is a third way forward. The IASC and a large group of leading standard-setting countries are engaged on a longer-term project to devise a comprehensive standard on financial instruments which includes a full fair value system. This is where most of the standard-setters think everyone is bound to end up one day, so why not go directly there together? This standard is likely to follow whatever compromise the Iosco agrees when endorsing the IASC package and it is much more likely to give the world the kind of long-term rules it really needs.

Meanwhile, the rest of the world will watch with interest as the FASB continues to battle its way through the first battle in the war ahead.

EQUITY DERIVATIVES • by Vincent Boland

Chastened but resurgent

Although the Asian crisis set the industry back, there are signs of new enthusiasm

The equity derivatives business is beginning to find its feet again after taking a bad knock with last year's Asian crisis. Heavy losses – at least SFr650m ($436m) according to the most reliable estimates – at the derivatives unit of Union Bank of Switzerland coinciding with its effective takeover by Swiss Bank Corporation, sent shock waves through the sector and prompted a reassessment of banks' exposure to increasingly volatile equity markets.

Now, a little chastened, the talk in the industry is about a resurgence of business. In the US, equity derivative products are enjoying a new market as regulation permits their greater use outside the traditional hedge fund users. Because of the liquidity of the US equity markets, there has been little enthusiasm for such products, but bankers say that is now changing.

The European corporate sector is turning more and more to products such as convertible and exchangeable bonds both to secure exit routes from unwanted "strategic" stakes and to leverage investments. And in Japan, investors are finally looking to all sorts of index and arbitrage products to give the kiss of life to the country's moribund stock market.

The sharp rise in stock market volatility brought about by the Asian economic and financial crisis lies behind much of the growth – both real and expected – in equity derivatives, from the simplest life insurance product to the infinitely complex methods investment bankers invent to hedge their clients' exposure to risk.

Alongside this development is the growing competition among insurance companies, fund management groups and banks for a bigger share of the pool of investible capital. The stable of products on offer to clients, both in the retail market and among the investment institutions, is huge and growing, aimed at achieving elusive outperformance. The popularity of equity investment among European investors, who once were exclusively buyers of government bonds, has opened up another new market for value-added products.

"As asset and liability management become more sophisticated and more constraints are placed on fund managers, the demand for products that hedge or transform risk is rising," says Thomas Reagan, managing director and global co-head of equity derivatives at JP Morgan. "There are a lot of tools available for a pension fund manager. If you're only using half of them and your competitors are using everything, you will have a difficult time keeping up with a fast-moving pack."


Thomas Reagan: a lot of tools available for pension managers

One of the most popular equity derivative products in the past two years has been the convertible or exchangeable bond, which combines the upside potential of equity with the downside protection of a substantial bond component. The market for such bonds, once restricted to specialist US fund managers and clients of Swiss private banks, is rapidly expanding, and issuers are rushing to capitalise on the phenomenon.

Convertibles, which convert into shares of the issuer, are also being used by fast-growing companies to raise finance. Bankers say they are the perfect tool for such companies, offering cheap financing, the opportunity for company founders to dilute their shareholdings (many of whom are happy to do so), and a growing consumer base for the type of investment that incorporates equity upside and fixed-income protection.

The European trend towards equitisation, fuelled by the Continent's privatisation drive and the desire among a growing number of family-owned companies to diversify their sources of capital, is fuelling the spread of equity derivatives in Europe. Bankers estimate that more European companies will look to exchangeable or convertible bonds in the next few years as the consolidation of industrial holdings continues. That is occurring at a time when the market for such instruments is expanding rapidly.

"In Europe, issuers of convertibles were traditionally large, high-grade companies, because consumers were Swiss private banks," says Ross Garron, head of equity derivatives at Commerzbank Global Equities. "There was no appetite for low-grade paper and no pan-European growth company investment funds. That's changing. We are beginning to see the development of convertible bonds as growth-company financing tools, and there is an enormous trend towards equitisation across Europe."

Another growth area is in volatility products, which seek to hedge exposure to equity markets. Stock markets are both highly valued and highly volatile, but bankers say there is a shortage of long-dated volatility products available to investors, and some say there is as yet little understanding of how volatility will affect markets in the long term. "The higher the volatility, the higher the uncertainty and the more people want to hedge their bets. High volatility is a good motivator," Mr Reagan says.

The development of the sector is also leading to much closer integration of a bank's equity derivatives business with its traditional equity capital markets area. Bankers say that one of the reasons why UBS incurred such big losses was that its derivatives unit was separate from the equity capital markets team. "There were no synergies there," says one banker familiar with UBS's predicament.

Other banks are keen to avoid UBS's fate. They are also preparing for a jump in business as stock markets show no sign of retreating and volatility remains high. Equity derivatives are moving away from their rocket science image and into the mainstream of fund management and investment banking.

REGULATION • by Nikki Tait in Chicago

Changes create new risks

The globalisation of the industry remains a challenge for regulators

If the globalisation of the financial services sector and the escalating pace of advances in technology present challenges for operators in the derivatives industry, they do not make life easy for regulators either.

On the one hand, demarcation lines between different segments of the derivatives industry – the over-the-counter swaps market, say, and the more formal futures exchanges – are being blurred. At the same time, trading mechanisms never contemplated a decade ago – via the internet, say – look set to raise new regulatory challenges.

Such developments have been quickly seized upon by many industry operators, who claim that derivatives customers are, by and large, sophisticated entities or individuals, capable of looking after themselves. Regulatory supervision, in the interests of fairness to all, should be conducted with a light hand, they maintain.

But, on the other hand, there is also growing evidence that the increasingly international nature of the financial services industry is raising new risks. One has only to look at the more notorious "scandals" to surface in the industry recently – from the Barings case, where a British-owned merchant bank was felled by a trader playing off the Singapore and Japanese derivatives markets, through to the Sumitomo copper trading affair, and on to the recent, and still evolving, cases of derivatives-related losses being suffered by US investment banks as a result of the south-east Asian economic crisis.

Nowhere has this dichotomy been more evident than in the US. For years, the nation has finessed – from a regulatory perspective – differences between the burgeoning OTC industry and the more formal futures exchanges. The Commodity Futures Trading Commission (CFTC) largely exempted the OTC industry from its supervision in the early-1990s, but it was never categorically established what jurisdiction might apply in the first place.

Now, dramatic growth in the OTC industry, coupled with the standardisation of swaps products and the prospect of centralised clearing in the near future, has caused the regulatory questions to resurface. Amid an extraordinary turf battle with the Securities and Exchange Commission, the CFTC put out a wide-ranging "concept release" earlier this year, essentially asking for comment from interested parties on how the OTC industry should be regulated. The background, it said, was "the dramatic growth in both volume and variety of products offered, participation of many new end-users of varying degrees of sophistication, standardisation of some products, and proposals for central execution or clearing operations".

The agency stressed at the outset that it had no preconceived conclusion in view. "The goal ... is to assist (the Commission) in determining how best to maintain adequate regulatory safeguards without impairing the ability of the OTC derivatives market to grow and the ability of US entities to remain competitive," it stated.

But this assurance did not prevent the OTC industry from expressing immediate alarm. The International Swaps and Derivatives Assocations, for example, quickly claimed that the "custom-tailored" nature of swaps still rendered them substantially different from standardised exchange-traded futures, and that any moves to bring both types of product under the same regulatory net would threaten the highly successful OTC industry, and effectively drive it offshore.

Futures exchanges were hardly overjoyed either. While they have persistently complained that the playing field is heavily tilted in favour of the OTC industry, they also maintain that the answer is less regulation for their markets, not more for the off-exchange business.

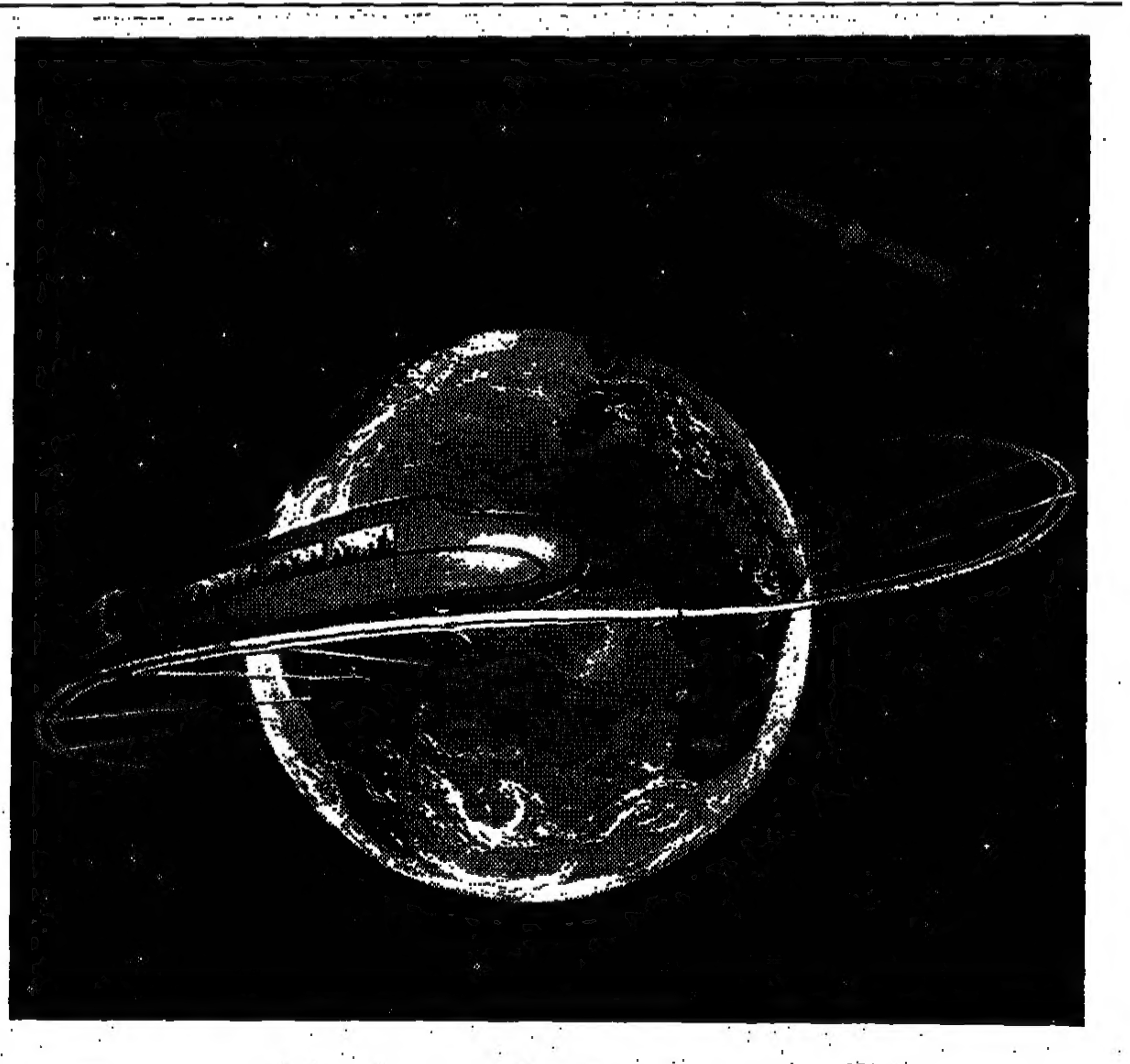
"In today's technology-driven global markets, over-the-counter derivatives and exchange-traded derivatives are intertwined and converging," noted Patrick Arbor, chairman of the Chicago Board of Trade, at a Washington hearing, recently. "OTC markets have thrived under [a] minimalist approach to government oversight. The Board of Trade is not asking for changes in that approach, or to ratchet up regulation of OTC markets. Instead, the Board of Trade is simply asking for regulatory parity".

While this issue continues to simmer, the task of dealing with the global nature of the derivatives industry remains a challenge for regulators worldwide. Efforts at international co-operation were stepped up in the wake of the Sumitomo copper market manipulation that occurred in 1995 and 1996.

In May this year, tangible evidence of a co-ordinated regulatory response also emerged, when a "multinational" settlement to the Sumitomo case was reached. The company agreed to pay $125m in US regulatory proceedings; set aside a further $25m to meet private parties' claims in the US; and forked out a further $8m to the Financial Services Authority in the UK, to reimburse that agency's costs and expenses.

But, in a period of unprecedented change within the derivatives industry, the regulatory challenges are unlikely to stop there. All the signs point to a proliferation of electronic trading platforms in the relatively near future.

Superficially, this development would seem to make the regulators' task somewhat easier. But many industry participants caution that such a view reflects only half the story: a computerised trail itself may be clear, but what goes on behind the screens is probably less transparent than activity on the floor.



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Financial derivative instruments traded on organised exchanges

Instruments	Turnover in notional amounts 1992	1993	1994	1995	1996	1997	Notional amount outstanding at end-1997
Interest rate futures	141.0	177.3	271.7	266.3	253.5	274.6	7.5
On short-term instruments	113.3	138.9	222.1	218.2	204.8	223.2	7.1
of which: *Three-month eurodollar rates*	66.9	70.2	113.6	104.1	97.1	107.2	2.6
Three-month euroyen rates	14.0	24.6	44.2	46.8	34.7	29.9	1.6
Three-month euro-DM rates	7.5	12.9	18.5	18.4	23.9	25.3	1.0
Three-month Pibor	5.8	10.4	12.0	15.9	13.7	12.3	0.2
On long-term instruments	27.7	38.5	49.6	48.2	48.7	51.4	0.4
of which *US Treasury bonds*	7.1	8.0	10.1	8.7	8.5	10.1	0.1
Japanese government bonds	9.7	14.2	13.8	16.2	12.3	10.6	0.1
German government bonds	3.2	5.1	8.9	9.3	12.3	14.5	0.1
French government bonds	2.8	3.2	4.6	3.4	3.4	3.1	0.0
Interest rate options[1]	25.5	32.8	46.7	43.3	41.0	48.6	3.6
Currency futures	2.3	2.8	3.3	3.3	3.0	3.5	0.1
Currency options[1]	1.4	1.4	1.4	1.0	0.9	0.7	0.0
Stock market index futures	6.0	7.1	9.4	10.6	12.9	16.4	0.2
Stock market index options[1]	5.7	6.3	8.0	9.2	10.1	13.0	0.8
Total	181.9	227.8	340.5	333.9	321.5	356.8	12.2
In North America	102.1	113.1	175.9	161.1	154.2	182.7	6.3
In Europe	42.8	61.4	83.9	87.5	100.1	114.9	3.6
In Asia[2]	36.9	53.0	77.8	81.1	63.8	56.3	2.2
Other	0.1	0.4	2.9	4.2	3.4	2.9	0.1

1. Calls and puts 2. Including Australia and New Zealand

Sources: Futures Industry Association, various futures and options exchanges and BIS calculations

Markets for selected financial derivative instruments

$bn	Notional amounts outstanding at end-year 1992	1993	1994	1995	1996	1997[1]
Exchange-traded instruments	4,634.5	7,771.2	8,862.9	9,188.6	9,879.6	12,207.3
Interest rate futures	2,913.1	4,958.8	5,777.6	5,863.4	5,931.2	7,489.2
Interest rate options	1,385.4	2,362.4	2,623.6	2,741.8	3,277.8	3,639.9
Currency futures	26.5	34.7	40.1	38.3	50.3	51.9
Currency options[2]	71.1	75.6	55.6	43.5	46.5	33.2
Stock market index futures	79.8	118.0	127.7	172.4	195.9	216.6
Stock market index options[2]	158.6	229.7	238.4	329.3	378.0	776.5
OTC instruments[3]	5,345.7	8,474.6	11,303.2	17,712.6	25,453.1	28,733.4
Interest rate swaps	3,850.8	6,177.3	8,815.6	12,810.7	19,170.9	22,115.5
Currency swaps[4]	860.4	899.6	914.8	1,197.4	1,559.6	1,584.8
Interest rate options	634.5	1,397.6	1,572.8	3,704.5	4,722.6	5,033.1

1. For over-the-counter instruments, end-June 1997 2. Calls and puts 3. Data collected by International Swaps and Derivatives Association (ISDA) only; the two sides of contracts between ISDA members are reported once only 4. Adjusted for reporting of both currencies; including cross-currency interest rate swaps 5. Caps collars, floors and swaptions.

Sources: Futures Industry Association, various futures and options exchanges, ISDA and Bank for International Settlements calculations

CREDIT DERIVATIVES • by Samer Iskandar

Market explodes into life

Traders and end-users believe there is huge potential for growth

As the global derivatives market matures and profit margins shrink on standardised products, credit derivatives are increasingly seen as one of the most promising growth areas for the future.

Interest rate and currency swaps, until recently considered highly technical and esoteric products, are now viewed by most market participants as standardised products. Consequently, profit margins have declined as banks and intermediaries find it increasingly difficult to justify high fees for widely available products.

Although credit derivatives are still in their defining stages, traders and end-users believe there is huge potential for growth.

"The underlying credit market is huge," Blythe Masters, head of credit derivatives at J.P. Morgan, said recently. "There is no real theoretical cap, any time in the near future, on how much the market can expand."

A survey published this month by the British Bankers Association shows that the market exploded into life last year and is set to double in size again in 1998.

The BBA found that the global market for credit derivatives had almost quadrupled to around $170bn at the end of 1997, from an estimated $40-$50bn a year earlier. And banks participating in the survey expect the total outstanding value of credit derivatives to jump to $350bn by the end of 1998 and $740bn by 2000. This is more than seven times the $100bn estimated by the same survey a year earlier.

Data from US regulators show that the volumes of credit derivatives handled by commercial banks in the US alone leapt from $97.1bn at the end of December to $148.4bn at the end of March.

"The biggest financial shocks have been the result of counter-party problems rather than market risk," says Michel Pérétié, head of derivatives at Paribas.

Awareness of the importance of credit risk, which was highlighted by the recent Asian financial crisis, is growing as investors turn to the emerging markets for higher yields. As a result, bankers say that much of the growth in the use of credit derivatives over the past 12 months comes from trade in emerging market paper.

Ethan Meister, managing director of credit derivatives at Credit Suisse Financial Products, recently estimated that roughly 25 per cent of the notional value of credit derivatives was linked to emerging market bonds.

"Credit derivatives are a very efficient way of transferring risk," he said. "The Asian crisis has alerted many investors and banks to the need to manage their credit exposure more effectively."

One impediment to the development of the market, however, has been the difficulty of agreeing on standard definitions of default.

"Growth was being held back by regulatory, legal and docmentation issues," says Robert Reoch, global head of credit derivatives at Bank of America. "But over the past year, much uncertainty in these areas has been removed."

But there is progress on this front, notably with the publication of standard contract documentation by the International Swaps and Derivatives Association (ISDA), which represents the main participants in privately-negotiated derivatives. The rapid spread of sophisticated credit management techniques, favoured by unrelenting improvements in computing capacity, is also helping the market to take off.

ISDA recently issued standard documentation for credit derivatives, inspired by its Master Agreement which has imposed itself as the industry standard for other privately-traded deals. But transposing the definitions to credit derivatives is not straightforward, because this sector is less standardised than, say, the swaps market.

"There are 12 definitions of default," says Mark Rodrigues, head of global risk management at consultants American Management Systems. "When do you consider someone to be in default? When they miss one payment, two payments?"

However, analysts agree these issues are nothing more than teething problems, and are largely outweighed by the potential benefits.

Mr Rodrigues believes existing risk management practices are often inefficient. "There is so much money tied up in capital," he says.

Using credit derivatives to spin off part of this risk would liberate precious capital for more productive uses.

But, as is often the case in nascent, fast-growing markets, credit derivatives raise new concerns for regulators. "The use of these instruments in particular ways could raise issues in terms of risk management and, potentially, open up opportunities for market abuse," says a report published last month by the International Securities Market Association (ISMA), the self-regulatory industry body for the securities market.

The problem is compounded by the difficulty of measuring accurately the size of the global market.

On balance, ISMA is confident that the benefits of using credit derivatives will outweigh the risks, provided regulators and the industry tackle the problems at an early stage.

INSURANCE DERIVATIVES • by Christopher Adams

Catastrophe bonds are becoming popular

The rising cost of disasters makes it difficult for the reinsurance industry to cope

An over-the-counter market in derivatives that absorb insurance risk, long promised as a more efficient alternative to conventional underwriting, is fast becoming reality. Sales of insurance-linked securities that transfer liability to the capital markets have gathered momentum in recent months, spurred by the increasing size of catastrophic and industrial risk. The value of transactions to date exceeds $1bn.

While issuers have tended to be insurance companies looking for a cost-efficient alternative to buying reinsurance, the traditional way they have laid off their own exposure to risk, interest is spreading. Fifa, soccer's world governing body, learned this summer that it would have to tap global financial markets to protect itself against any unexpected revenue loss from future World Cup competitions. The soaring value of television and advertising rights associated with the event means that conventional insurance will be inadequate and Fifa may issue "catastrophe bonds", which pay returns slightly higher than those available from blue-chip corporate bonds, but which also withold payments if catastrophe strikes.

Reinsurance, which needs to be underpinned by deep capital resources because of the scale of risk involved, is an attractive option where it can be obtained. The market is highly transparent and it takes only a few days to arrange cover with one of the larger carriers like Germany's Munich Re or Zurich-based Swiss Re. Reinsurers receive a premium for providing coverage against losses above a certain level.

Negotiating the terms of a catastrophe bond issue, on the other hand, and drumming up investor interest can take months. Moreover, premium rates for most classes of reinsurance, and catastrophe cover especially, are falling due to an absence of major disasters.

Catastrophe bonds are gaining popularity because the capacity of the world's insurance and reinsurance markets to meet the rising cost of disasters is diminishing. When Hurricane Andrew devastated the Florida coast in 1992, it caused $15bn of insured damage. A similar storm striking Miami could inflict six times that amount of damage.

Attempts by the capital markets to fill the shortfall in coverage have been slow to take off, but are beginning to accelerate. The Chicago Board of Trade opened a catastrophe exchange in 1992. The number of catastrophe-based options reached more than 20,000 this year, representing $100m of risk. The biggest OTC bond issue to date was the sale last month of $450m in hurricane securities by USAA, one of the largest residential insurers in the US, which began securitising its exposure to such losses in a ground-breaking deal last year.

"Since that first deal, people have become more comfortable with the asset class and see a variety of risks being securitised," says Morgan Sze of Goldman Sachs, the investment bank.

The second USAA deal was followed within days by the successful placing of a catastrophe bond providing protection against losses related to Japanese typhoons, an issue which raised $80m for Yasuda Fire & Marine, one of Japan's biggest non-life insurers.

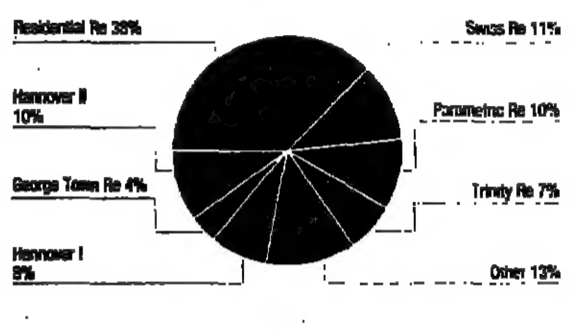
A typical catastrophe bond deal is structured so that an insurer seeking coverage buys reinsurance from a single-purpose vehicle, usually located in an offshore centre with an accommodating fiscal regime. The vehicle issues the bonds to investors and the proceeds from this sale are held in trust and invested. Together with the premium paid by the insurer, the interest earned on the invested assets covers the vehicle's expenses and re-pays investors. A bond tied to the risk of earthquake in Japan, had various triggers based on the magnitude of the shock. Mr Sze says that investors are attracted by the relatively high returns which the bonds pay and the absence of any correlation between them and other financial assets. The USAA bonds have a life of 11½ months and an annualised yield of 400 basis points over Libor. Yields this year have fallen, suggesting investors may have become more comfortable with the instruments.

Over time, because of the immense size of the world's capital markets, the pricing of catastrophe bonds should be less volatile than reinsurance, where the total volume of business that US companies could safely write has been estimated at $260bn by A.M. Best, the rating agency.

Investment bankers believe that derivatives could be used to insure a wider range of risks. The heavy up-front costs incurred by life assurers on the policies they sell could be absorbed by a bond issue where repayments were linked to future profits on a book of business. National Provident Institution, the UK-based mutual life assurer, recently completed such a deal, raising £260m. Electricity generators, whose revenues fluctuate with the vagaries of the weather, could issue bonds that protected them against mild winters. Oil companies might choose to insure offshore platforms or cover themselves against pollution liability in this way.

In anticipation of increased competition from the capital markets and in a bid to exploit the growing interest for securitisation, reinsurers have set up businesses to engineer hybrid methods of financing risk. But many remain sceptical about the capital markets' participation in an area that they say demands specialist expertise.

Insurance risk placed with capital markets*



Source: Goldman Sachs *as of April 1998

RISK MANAGEMENT SYSTEMS • by Paul Solman

How to find a firm base for trading

Management culture is as important as an efficient computer system

The risk management software business is expanding fast. The large number of software developers offering highly specialised systems is a testament to growing importance of the industry.

As the range of derivative products widens, managers are looking to increasingly sophisticated computer programs to deal with trading risks. In addition, the European capital adequacy directive – under which banks must hold a capital cushion amounting to at least 8 per cent of their total assets – has forced institutions to take a close look at how they manage their activities.

One of the main changes in the market has been the assessment of credit derivatives. "Credit is increasingly being looked at as a market risk," says Ethan Berman, head of the risk products group at J.P. Morgan in New York. "Systems are being developed that take a market, VAR [value-at-risk] approach to managing credit risk."

Proprietary models such as J.P. Morgan's RiskMetrics and CreditMetrics, which generates a value-at-risk that encapsulates the market risk of an entire portfolio, are now widely available.

Mr Berman says there is an increasing need to look at how risk in one market will affect another. "As markets become more globalised, and exposures become more complex, the correlation between different markets is becoming more important."

Richard Houston, head of financial systems at Arthur Andersen Financial Products in London, says customers shopping for new systems tend to divide into two camps: "Some want robust, front-to-back systems, while others want specialised niche packages."

Complete, front-to-back systems usually comprise hardware and software, and are designed to cope with a range of applications. "These are robust systems that can handle everything from front-office, to middle-office and back-office tasks," Mr Houston says.

Some of the leading front-to-back systems include Systems Riskwatch by Algorithmics, Infinity Financial Technology's Infinity, Summit Systems' Summit, and Sunguard Capital Markets' Panorama, C.atalyst by C.ats Software, Opus by Renaissance Software, and Reuters' Knodor+.

They can handle a range of derivative products and carry out tasks such as pricing, analytics, trading position-keeping, scenario analysis, portfolio management, stress testing, limit setting, trade confirmations and payments.

The smaller, specialised packages are usually used in conjunction with existing systems. "They tend to be more analytical and perform specific functions like valuation," Mr Houston says.

Many of them can be used as add-ins to spreadsheets such as Microsoft Excel. They can evaluate the risk of specific derivative products such as equities, swaps and options, or calculate daily earnings risk. Examples include FEA's range of applications such as @Global, @Interest, @Equity, J.P. Morgan's FourFifteen and CreditManager, and Tech Hackers' @nalyst.

With the enormous number of systems on offer, how do managers select the right one?

"It will obviously depend heavily on the tasks that need to be performed," says Mr Houston. "Many clients will come to us with a short list of systems that they think will fit the bill.

"We identify functional criteria, which include the volume of tasks to be performed, types of derivative products to be handled, and the number of users."

It is important to look at how a new package will fit with existing systems. "We look at the platform that's running already, whether it's Unix or Windows, for example," says Mr Houston.

The company must also have the infrastructure to support the new system. "A big Asian investment bank, for example, might have several trading sites and sub-offices. So it might choose a large, robust system because they want to build a global platform."

Mr Houston adds: "Most people have the same sort of ambitions for what they want from a new system. For example, no re-keying of data as it moves from front to back-office. And it must integrate well with the current environment. There's no point in buying it if it won't talk to your general ledger."

Mr Houston is noticing a trend towards the larger, robust systems. "Customers seem to prefer complete systems to very analytical ones." Businesses are also looking towards more open systems, with a high level of flexibility, that can be customised.

"When businesses are installing new solutions, they're usually migrating away from existing systems that are old technology or not handling their products very well. So, with the new system, we try to make sure they don't just copy the way the old one works, but add value by finding a better way to do something," Mr Houston says.

However, the pressure to gain a competitive advantage means many large institutions eschew "off-the-shelf" products in favour of developing their own solutions. Mr Berman of J.P. Morgan says: "Over 80 per cent of the real dollars spent on risk management systems is spent in-house."

Greenwich Capital has spent two years introducing a global risk management system. Vincent Tomasi, global manager of debt derivatives in New York, says Greenwich wanted to move to a fully integrated, global system.

"Before, different offices were using different systems which could lead to valuation discrepancies. We wanted to make sure everybody in London, New York, Singapore, Tokyo or Hong Kong was on the same footing," says Mr Tomasi.

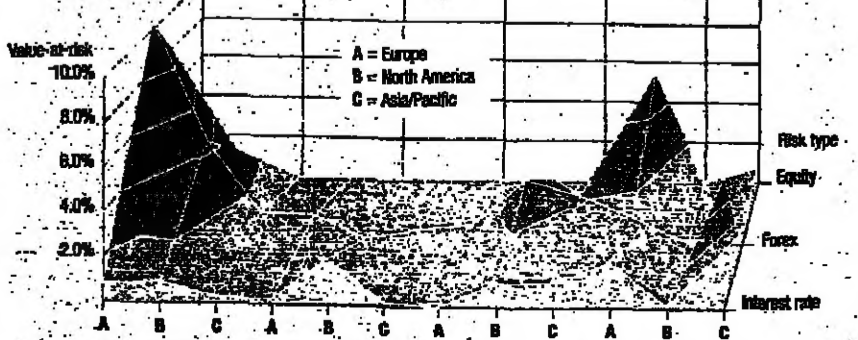
Greenwich's system, known as GDS (Global Derivatives System), was designed with open architecture so that data could be manipulated easily. It was made flexible so that other modules could be added.

However, Andrew Cross, a director of risk management and quantitative analysis at Credit Suisse Financial Products in London, emphasises that introducing a risk management system is as much about management culture as about an efficient computer programme.

"Managing risk is about confidence. When you trade, you need to stand on a firm base so that you know the effect of what you're doing," says Mr Cross.

A point echoed by Mr Berman of J.P. Morgan. "The reason money is lost is not because banks don't have the right computer programme. Risk management remains about judgment and people rather than complex systems."

Looking at risk



Example of a three-dimensional graph produced by a risk management programme. Value-at-risk (VAR) percentages are shown for interest rate, foreign exchange and equity products in an international portfolio

Source: J.P.Morgan

JAPAN • by Gillian Tett

Traders gamble on an anomaly

A legal ambiguity has stopped Japan from entering the derivatives first league

Are derivatives gambling instruments? In some countries that question might seem rhetorical. Not so in Japan.

As the country scrambles to liberalise its financial markets, one particular anomaly hangs over the derivatives sector: a literal interpretation of Japan's strict gambling laws implies that trading in some derivatives products is banned.

Japanese officials point out that nobody has ever been sued over this, not least because the legal issues are not clear-cut. "It is no problem," argues one ministry of finance official.

Meanwhile, the legislation has not prevented the country from developing a derivatives market in recent years nor has it prevented western investment banks from joining the fray. As one western lawyer admits: "There is a fudge going on, if you like. The authorities don't really want to clamp down – and we don't really want to ask."

But the lack of open law suits partly misses the point. For though nobody seriously expects that the Japanese would implement the legislation, the ambiguity highlights the multitude of "fudges" that have been a hallmark of Japan's financial markets and corporate culture to date.

And the crucial question is whether Japan is prepared to change this "fudge-based culture" and move to a more transparent, open system where credit can be accurately priced by investors.

For if Japan can create an investor-friendly culture, the Big Bang reforms could be poised to create a derivatives boom. If it does not, though, then the country seems destined to remain in the derivatives second league. "I believe the derivatives business will grow in Japan," says Henry Fajemirokun, head of derivatives at Barclays Capital.

The pressures for Japan to act to boost its markets are mounting. For the ambitious programme of Big Bang deregulation that Ryutaro Hashimoto, outgoing prime minister, pledged 18 months ago is now being driven by at least two trends.

One is a sense that Japan is falling behind other leading financial centres such as New York, London or Chicago in financial products such as derivatives. The country, for example, has markets in several derivatives products, most notably the 10-year JGB futures contracts, 10-year futures and options, and the Nikkei 225 futures contracts. Osaka, not Tokyo, is the main centre for this trading, with the Osaka Securities Exchange accounting for 77 per cent of futures trading, and 99.5 per cent of options trading.

Volumes in some sectors are moderately impressive: the 10-year JGB futures contract, the largest market, reached 11.9m contracts last year. But what is more striking is that this is the lowest figure since 1992.

This partly reflects the poor state of the Japanese markets and limited demand from Japanese investors. However, there are also signs that the derivatives business has been quietly seeping overseas in recent years, due to the high cost of operating in Japan, and numerous other regulatory irritants. Singapore, for example, has been aggressively marketing itself as an alternative to Japan – a full third of all Nikkei 225 futures contracts are now traded in Singapore.

But the other issue which is driving the Big Bang reforms is that the country badly needs a more effective capital market for its own economy to flourish. The Japanese corporate sector has traditionally relied on banks for funds (and the country's consumers placed most of their huge savings in bank deposits). However, with the population ageing, these consumers badly need to earn higher returns on their savings. Meanwhile, companies need to find more flexible and efficient ways of funding – and of tapping a broader pool of investors.

This means that Japan needs to move away from indirect to direct forms of financing. And this in turn creates a motive to boost the derivatives business to generate more liquidity and depth into the markets.

Can Japan do this? The government insists that it is committed to trying. The Big Bang reforms, for example, contain a rolling deregulation programme which is steadily removing some legal obstacles to derivatives trading. Last summer, for example, single stock options trading was introduced. Both the Tokyo Stock Exchange and Osaka Securities Exchange have plans to introduce more products.

Rules preventing off-exchange trading are being relaxed: OTC trading in securities derivatives, for example, will be permitted in December. And the regulations limiting the list of companies which are permitted to trade derivatives are being lifted. This year, for example, banks will be given more freedom to trade equity-linked derivatives.

But though these are important steps, what is most important now is that the next government matches up to the spirit of deregulation as well as to the letter. For it will be difficult for Japan to develop a culture of real product innovation, for example, if the ministry of finance continues to approve new products on a case-by-case basis, rather than by using clear laws. And it will also be hard to attract new investors to the market until there is a clear system of investor protection based on transparent legal principles – and uncluttered by anomalies such as the ambiguous gambling laws.

Weekly turnover on the SFE hit A$1,000bn in mid-June, following wild swings in market expectations AP

AUSTRALIA • by Gwen Robinson

Screen test looms

Electronic trading is expected to end the 'tyranny of distance' suffered by the SFE

Futures trading in Australia marked new highs this year when the plunge of the Australian dollar to 12-year lows of US$0.58 in June drove the Sydney Futures Exchange (SFE) into the largest trading period of its 38-year history. Weekly turnover on the SFE hit A$1,000bn in mid-June, following wild swings in market expectations, from strong hopes of an interest rate cut to fears of an imminent rate increase. Les Hosking, SFE chief executive, described the phenomenon as the "most significant turnaround in interest rate sentiment this decade".

Well before that surge, however, SFE was already benefiting from growing interest in derivatives at a time when the stock market was faltering on concerns about the impact of Asian economic turmoil on Australian corporate earnings. In April, the Futures Industry Association announced SFE had overtaken the Tokyo Futures Exchange to become the largest financial futures exchange in the Asia-Pacific region and the 11th largest in the world.

But the most important development for Australian futures trading – and one which will be closely watched by futures markets around the world – is the SFE's bold decision to end its traditional open outcry system and move to fully electronic screen trading by early next year. The move to fully computerised trading is the first such step by a sizeable futures exchange and comes as futures exchanges in London and other parts of Europe move to develop automated trading systems.

"Competition has gone beyond the question of open outcry or electronic, it's about how efficiently you can distribute globally and how sophisticated your electronic trading platform is," said Mr Hosking. "Earlier on, sceptics were saying the SFE was moving too fast. Now, other exchanges are scrambling to get full electronic capability in what has become an obvious trend."

The SFE's new electronic trading system, Sycom IV, will be a new version of the Sydney Overnight Computerised System, the current screen system used for after-hours dealing. It will be one of the first systems to feature open architecture, providing compatibility with different systems throughout the world, and will be capable of handling combination trades, or simultaneous trading of multiple strategies. The first live test run for the new system will take place in October, in preparation for the switch to full automation by about March next year.

For the SFE, which began life in 1960 as the Sydney Greasy Wool Futures Exchange, the move represents a radical change in trading culture as well as an important step in Australia's attempts to become a regional financial centre. Initially, SFE was a market for wool and cattle producers to hedge the sale price of their product. Interest in wool and cattle contracts, however, gave way to financial contracts such as bank bill, bond and, from 1983, share price index (SPI) futures, which dominate the market today.

Australian government bond futures are the SFE's most heavily traded contracts, but the most popular contract among private retail traders is the SPI, based on the Australian stock market's main gauge, the All Ordinaries index. At present, during daylight hours, more than 300 traders gather in "pits" on the exchange's trading floor, wearing brightly-coloured jackets to distinguish themselves from other traders, and about buy and sell orders. This noisy and colourful tradition will disappear next year, when the existing trading floor closes down and traders move to screens in their offices.

The exchange has launched an intensive retraining program for traders and staff. "There are people who trade on the floor with their voice and hands who now have to learn how to trade with an electronic terminal," Mr Hosking said. At the same time, SFE management has been trying to allay the fears of smaller, independent traders who have relied for decades on the pits for signs of market trends. They have also complained about the costs of keeping up with technological changes. But the majority of SFE members, dominated by the large brokers, say the shift will ultimately reduce overheads and improve efficiency.

More significantly, says Mr Hosking, the move to automation is about Australia's survival in an increasingly competitive – and globalised-environment. "As far as the SFE is concerned, we believe we would gain more business and more participants on an electronic platform, because of our time zone location, our distance from Asia and, more particularly, the northern hemisphere. Our disadvantage has been the 'tyranny of distance' and electronic trading is really the only way we can take our markets to the rest of the world in a simple and visible manner: instead of bringing the customer to us, we can take the exchange to the customer."

The mix of participants, what Mr Hosking terms "hedge versus speculation", is expected to change significantly with the move to electronic trading. Currently, about 30-40 per cent of SFE turnover is on speculation, the rest on hedging and institutional business for certain instruments. "Certainly in the commodities area, we should see greater participation on the speculative side – electronic trading will increase the retail business which comes to the exchange," he says. The real growth potential, however, will come from Asia, the retail players of the big regional markets, he says.

In Europe, however, introduction of the single currency will provide new opportunities for Australia. "There will be greater focus on the variety offered in Asia, particularly Australia," said Mr Hosking. "The liquidity and depth of the euro will be very attractive, of course, but that leaves Asia still with a diversified product and investment base, which will interest investors. But it will be essential for Australia to relate Asian risk against euro risk, and Asian risk against US dollar risk... Asia won't be a formal alliance, but certainly there will be people basketing up Asian risk into portfolios."

A "whole new scope of trading activity" will emerge from the introduction of the euro and will change the nature of trading relationships between Asia – particularly Australia – and Europe, and Asia and the US, he noted. "The style of price exposure for many of our commodities is going to change. We'd like to line up some commodity instruments so people can manage the risk of price volatility between Australian dollars and the euro, or the US dollar. There have been plenty of commodity instruments reflecting US commodity trading with Australia, but now we have another great big one – the euro, in terms of exports of coal, beef, wool, wheat and so on."

Mr Hosking also expects a shift in the mix of domestic and off-shore investors. Currently, 30 per cent of SFE turnover is non-Australian, a vast improvement from a decade ago, when the proportion was 5 per cent. But not enough for the SFE's ambitions. "We'd like to reverse that percentage and see about 70 per cent come from off-shore ... it's essential for Australia to bring in much more offshore business, otherwise we'll be picking each other's pockets."

"If you have primarily an Australian market place for Australian participants, the hedges are performing true hedge functions but speculators are in fact picking each others' pockets. Electronic trading will bring that to us."